

HARDIN COUNTY BOARD OF EDUCATION

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Year Ended June 30, 2005

HARDIN COUNTY BOARD OF EDUCATION

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Hardin County Board of Education
Elizabethtown, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hardin County Board of Education as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated August 12, 2005, on our consideration of Hardin County Board of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 3 through 12, and the Budgetary Comparison Information on pages 40 through 41, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hardin County Board of Education's basic financial statements. The combining financial statements as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Also, the accompanying Schedule of Expenditures of Federal Awards on pages 54 through 55 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stiles, Carter & Associates

Certified Public Accountants
August 12, 2005

REQUIRED SUPPLEMENTARY INFORMATION

**HARDIN COUNTY BOARD OF EDUCATION - ELIZABETHTOWN, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2005**

The discussion and analysis of Hardin County Board of Education's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to review the School District's financial performance as a whole; readers should also review the financial statements and notes to the financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in the Statement No. 34 *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local governments* issued in June 1999.

FINANCIAL HIGHLIGHTS

- 1 The beginning General Fund fund balance for the District was \$13.4 million. The ending General Fund balance was \$13.5 million. Revenues and expenditures were stable compared to the previous fiscal year.
- 2 The beginning Construction Fund fund balance for the District was \$14 million. The ending Construction Fund balance was \$7.7 million. The major reason for the decrease in the fund balance was the use of bond proceeds recorded in the previous fiscal year on the Creekside project.
- 3 The Annual Financial Report shows the General Fund with a large increase in state revenue due to a change in reporting requirements mandated by the Kentucky Department of Education's (KDE) implementation of GASB regulations. The revenue is recorded as on-behalf payments. This amount was reported as revenue and also as expenditures and therefore has no effect on the fund balance. The expenditure of this money is recorded under employee benefits in different functions - Instruction, Student Support, Instructional Staff Support, District Administration, School Administration Business Support, Plant, and Transportation.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

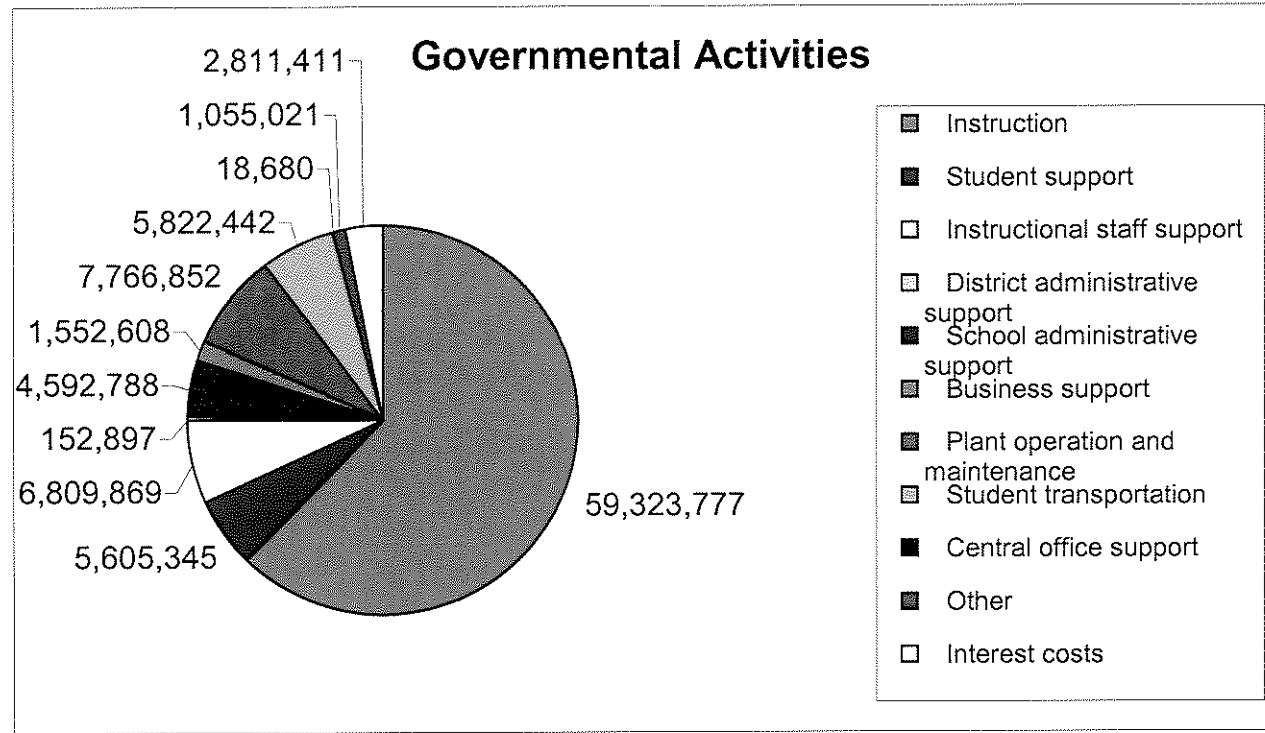
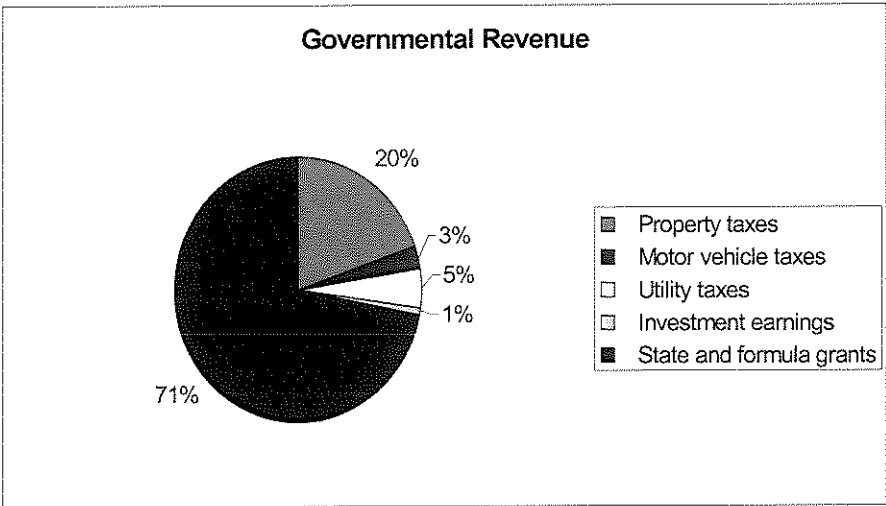
Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as one indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

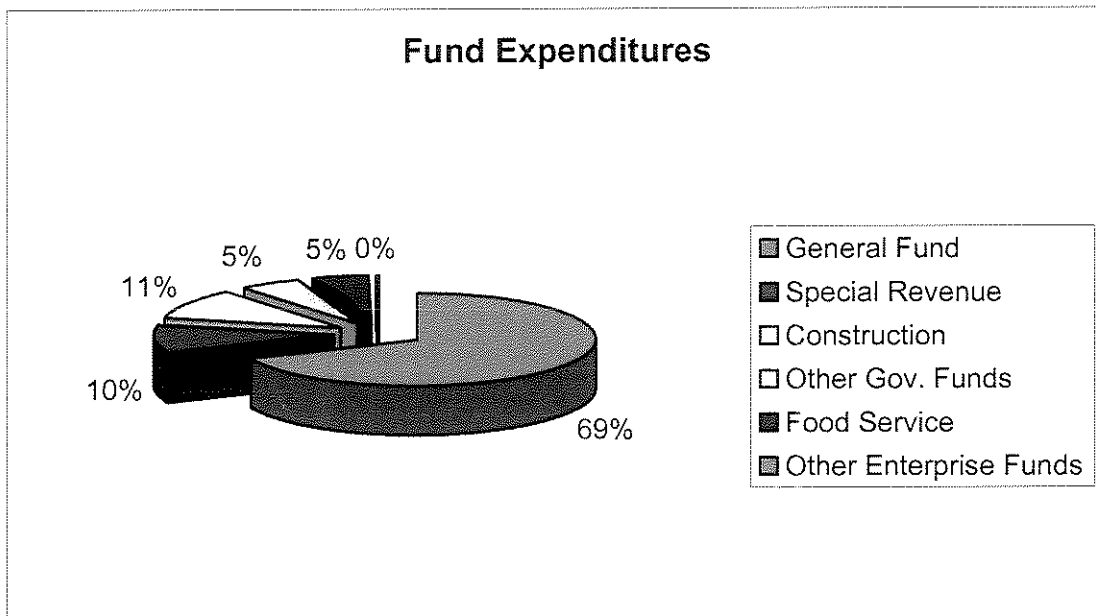
The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.



The government-wide financial statements can be found on pages 13 - 14 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. The fiduciary funds are agency funds for student education and private purpose trust funds. The

proprietary funds are the food service, child care and educational television operations. All other activities of the District are included in the governmental funds.



The basic governmental fund financial statements can be found on pages 15 - 23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 - 39 of this report.

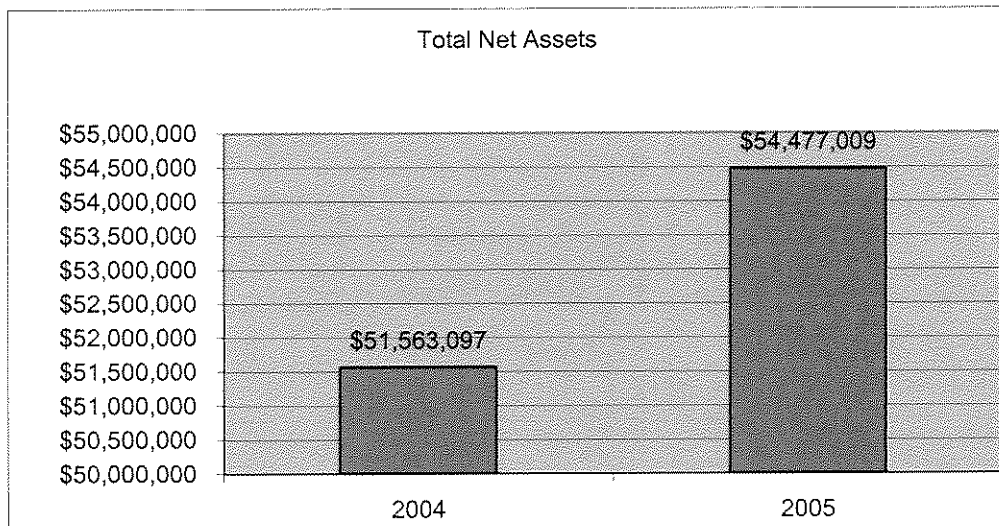
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as an indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$54.5 million as of June 30, 2005. The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves are not be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition, disposal and depreciation of capital assets.

**Net Assets for the period ending June 30, 2005 and 2004
(Table 1)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and Other Assets	\$ 27,308,358	\$ 31,341,902	\$ 878,408	\$ 954,617	\$ 28,186,766	\$ 32,296,519
Capital Assets	<u>100,807,923</u>	<u>91,123,073</u>	<u>788,927</u>	<u>804,942</u>	<u>101,596,850</u>	<u>91,928,015</u>
Total Assets	<u>128,116,281</u>	<u>122,464,975</u>	<u>1,667,335</u>	<u>1,759,559</u>	<u>129,783,616</u>	<u>124,224,534</u>
Long-term Debt	65,323,084	64,174,413	-	-	65,323,084	64,174,413
Other Liabilities	<u>8,316,188</u>	<u>6,727,468</u>	<u>120,033</u>	<u>47,788</u>	<u>8,436,221</u>	<u>6,775,256</u>
Total Liabilities	<u>73,639,272</u>	<u>70,901,881</u>	<u>120,033</u>	<u>47,788</u>	<u>73,759,305</u>	<u>70,949,669</u>
Net Assets						
Investment in capital assets (net of debt)	35,150,694	27,857,643	788,927	804,942	35,939,621	28,662,585
Restricted	10,088,670	15,452,342	-	-	10,088,670	15,452,342
Unrestricted	<u>9,237,645</u>	<u>8,253,109</u>	<u>758,375</u>	<u>906,829</u>	<u>9,996,020</u>	<u>9,159,938</u>
Total Net Assets	<u>\$ 54,477,009</u>	<u>\$ 51,563,094</u>	<u>\$ 1,547,302</u>	<u>\$ 1,711,771</u>	<u>\$ 56,024,311</u>	<u>\$ 53,274,865</u>

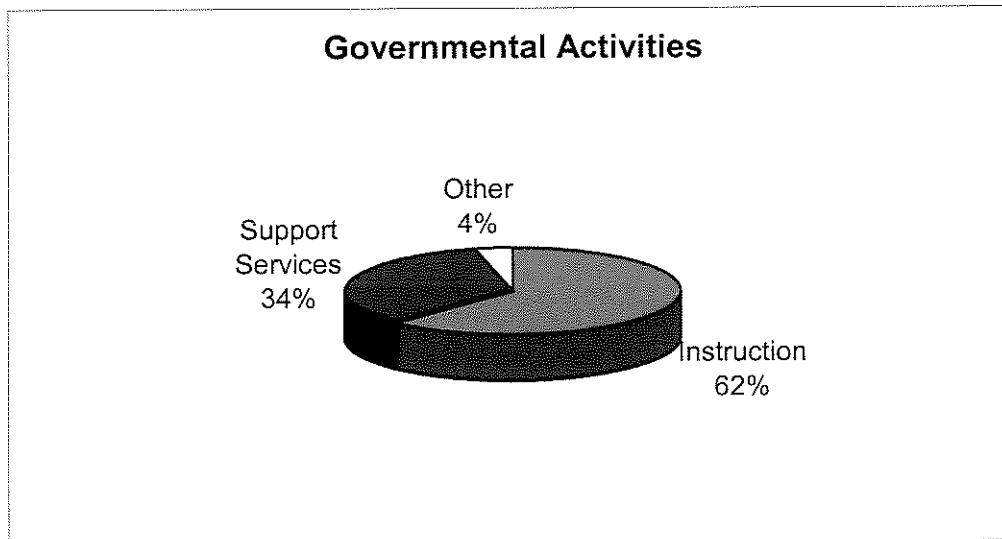


The following Table 2 presents a summary of changes in net assets for the fiscal years ended June 30, 2005 and 2004.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
REVENUES:						
Program revenues:						
Charges for services	\$ 86,167	\$ 130,605	\$ 2,976,904	\$ 2,828,023	\$ 3,063,071	\$ 2,958,628
Operating grants and contributions	14,410,303	15,446,545	3,252,102	3,029,578	17,662,405	18,476,123
Capital grants and contributions	2,168,782	754,945	-	-	2,168,782	754,945
General revenues:						
Property taxes	16,210,560	15,144,735	-	-	16,210,560	15,144,735
Motor vehicle taxes	2,094,548	2,198,368	-	-	2,094,548	2,198,368
Utility taxes	3,687,314	3,508,410	-	-	3,687,314	3,508,410
Other taxes	2,852	3,096	-	-	2,852	3,096
Investment earnings	828,674	680,431	10,689	6,978	839,363	687,409
State and formula grants	58,159,665	55,322,419	-	-	58,159,665	55,322,419
Gain (loss) on asset disposal	54,920	(3,848)	(530)	(4,827)	54,390	(8,675)
Miscellaneous	576,668	437,008	-	-	576,668	437,008
Total revenues	98,280,673	93,622,714	6,239,165	5,859,752	104,519,838	99,482,466
EXPENSES:						
Program Activities:						
Instruction	59,323,777	57,552,373	-	-	59,323,777	57,552,373
Student support	5,605,345	4,460,239	-	-	5,605,345	4,460,239
Instructional staff support	6,809,869	4,114,091	-	-	6,809,869	4,114,091
District administrative support	152,897	2,010,562	-	-	152,897	2,010,562
School administrative support	4,592,788	4,976,107	-	-	4,592,788	4,976,107
Business support	1,552,608	1,493,782	-	-	1,552,608	1,493,782
Plant operation and maintenance	7,766,852	6,990,289	-	-	7,766,852	6,990,289
Student transportation	5,822,442	5,379,244	-	-	5,822,442	5,379,244
Central office support	18,680	1,431,950	-	-	18,680	1,431,950
Facilities acquisition	-	755,815	-	-	-	755,815
Community service activities	969,121	973,015	-	-	969,121	973,015
Other	85,900	86,799	-	-	85,900	86,799
Interest costs	2,811,411	2,412,663	-	-	2,811,411	2,412,663
Business-type Activities:						
Food service	-	-	6,066,875	5,724,130	6,066,875	5,724,130
Childcare	-	-	291,463	236,753	291,463	236,753
Educational television	-	-	45,296	16,575	45,296	16,575
Total expenses	95,511,690	92,636,929	6,403,634	5,977,458	101,915,324	98,614,387
Special item - gain on sale of building and land	144,929	61,300	-	-	144,929	61,300
Transfers	-	-	-	-	-	-
Increase (decrease) in net assets	\$ 2,913,912	\$ 1,047,085	\$ (164,469)	\$ (117,706)	\$ 2,749,443	\$ 929,379

Governmental Activities

Instruction comprises 62% of governmental program expenses. Support services expenses make up 34% of government expenses. The remaining expense for interest, facilities acquisition and other items accounts for the remaining 4% of total government expense.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Instruction	\$ 59,323,777	\$ 57,552,373	\$ 47,517,974	\$ 45,986,331
Support Services	33,290,602	31,829,279		29,742,556
Other	85,900	86,799	85,900	86,799
Facilities acquisition	-	755,815	-	870
Interest costs	<u>2,811,411</u>	<u>2,412,663</u>	<u>642,629</u>	<u>488,278</u>
Total expenses	<u><u>\$ 95,511,690</u></u>	<u><u>\$ 92,636,929</u></u>	<u><u>\$ 48,246,503</u></u>	<u><u>\$ 76,304,834</u></u>

Business-Type Activities

The business-type activities include the food service, child care and educational television operations. These programs had total revenues of \$6,239,165 and expenses of \$6,403,634 for fiscal year 2005. Of the revenues, \$2,976,904 was charges for services, \$3,252,102 was from State and Federal grants, \$10,689 was from investment earnings and (\$530) was a loss on disposal of assets. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity. If it becomes necessary, the School District will make adjustments to the operations of this activity.

The School District's Funds

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$128,275,167 and expenditures and other financing uses of \$133,659,716. Net changes in fund balances for the year were most significant in the Construction Fund (\$6,314,115).

The decrease in Construction Fund was due primarily to the construction costs for Creekside Elementary School.

General Fund-Budget Highlights

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

For the General Fund revenues were budgeted at \$63,691,606 with actual amounts of \$79,433,041. Budgeted expenditures of \$75,951,652 compare with actual expenditures of \$79,147,834. The most significant fluctuation is for on-behalf payments of \$12,927,663. If on-behalf payments were not included in revenues, revenues would be \$66,505,378, which is \$2,813,772 over budget. If on-behalf payments were not included in expenditures, expenditures would be \$66,220,171, which is \$9,731,481 under budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005 the School District had \$101,596,850 invested in land, land improvements, buildings, vehicles, equipment, and construction in progress, and \$100,807,923 in governmental activities. Table 4 shows fiscal year 2005 and 2004 balances.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Land	\$ 1,997,403	\$ 2,004,563	\$ 16,790	\$ 16,790	\$ 2,014,193	\$ 2,021,353
Land improvements	2,891,032	2,994,306	-	504	2,891,032	2,994,810
Buildings and improvements	78,557,616	67,512,984	70,765	77,137	78,628,381	67,590,121
Technology	1,664,255	2,022,102	13,309	30,231	1,677,564	2,052,333
Vehicles	3,342,868	3,199,357	2,640	7,921	3,345,508	3,207,278
General equipment	1,175,668	1,139,323	685,423	672,359	1,861,091	1,811,682
Total	89,628,842	78,872,635	788,927	804,942	90,417,769	79,677,577
Construction in progress	11,179,081	12,250,438	-	-	11,179,081	12,250,438
Total	<u>\$ 100,807,923</u>	<u>\$91,123,073</u>	<u>\$ 788,927</u>	<u>\$ 804,942</u>	<u>\$ 101,596,850</u>	<u>\$91,928,015</u>

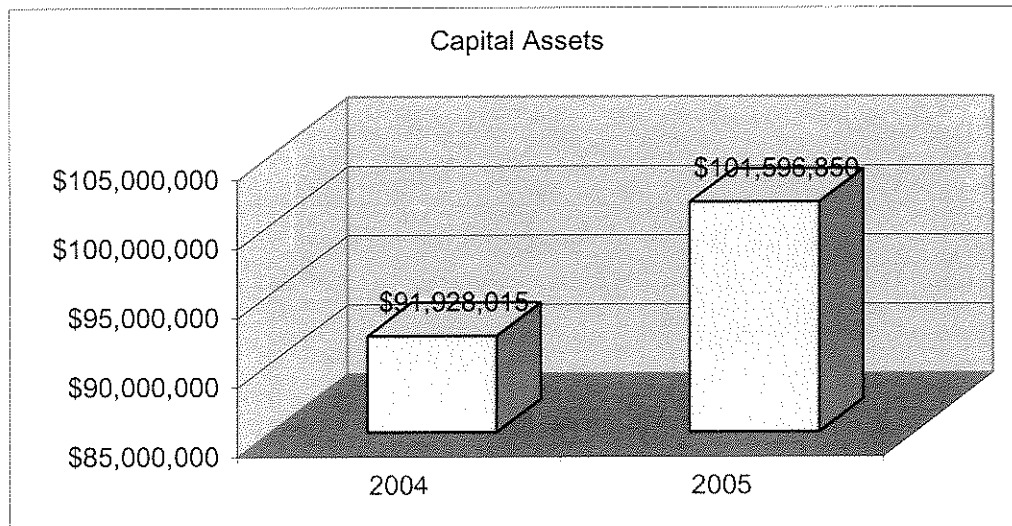


Table 5 shows the changes in capital assets for the fiscal years ended June 30, 2005 and 2004.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Beginning balance	\$ 91,123,073	\$83,435,233	\$ 926,619	\$ 926,619	\$ 92,049,692	\$84,361,852
Additions	27,070,732	24,530,760	45,134	45,134	27,115,866	24,575,894
Retirements	(13,314,255)	(12,692,718)	(4,827)	(4,827)	(13,319,082)	(12,697,545)
Depreciation	(4,071,627)	(4,150,202)	(161,984)	(161,984)	(4,233,611)	(4,312,186)
Ending balance	<u>\$ 100,807,923</u>	<u>\$91,123,073</u>	<u>\$ 804,942</u>	<u>\$ 804,942</u>	<u>\$ 101,612,865</u>	<u>\$91,928,015</u>

Renovations were completed on West Hardin and East Hardin Middle Schools and a construction project for Creekside Elementary School continued. Also, a project to improve future energy costs began. These and other unfinished project costs are in construction in progress at June 30, 2005.

Debt

At June 30, 2005, the School District had \$68,235,000 in bonds outstanding, of this amount \$14,462,355 is to be paid from KSFCC funding provided by the State of Kentucky. A total of \$3,930,000 is due within one year. The District issued \$5,455,000 of revenue bonds in June 2005 to finance the energy project; \$17,350,000 in refunding revenue bonds in June 2005 to partially advance refund the 2000 bond issue; and \$2,910,000 in February 2005 to partially advance refund the 1996 bond issue.

District Challenges for the Future

The primary challenges for Hardin County Schools are to continue to increase the level of achievement of our students, continue to maintain and improve the average daily attendance of our students, and continue to provide modern facilities.

The most important challenge is to increase the academic achievement of our students. The District has increased the funding in several areas to move toward this goal. The District has added to the funding support to the grants for the preschool and the special education programs. The District has implemented programs to control energy costs and is saving approximately \$500 thousand per year and has also streamlined telephone services to reduce costs. By making the district operations more efficient, money saved can be used to improve student achievement.

The second district challenge mentioned is maintaining and improving the average daily attendance. The district receives funding through the SEEK formula based on this count. Growth within the district is increasing. Continued growth in average daily attendance will allow the District to qualify for an additional growth levy. The additional revenue would greatly enhance the bonding capacity for the District to construct additional classroom space to meet the needs of additional students. It is vital that our schools continue high attendance percentages. While attendance is critical to the funding of the District, it is more important to note that good attendance has a direct relationship to student achievement. Maintaining excellence and emphasizing serving the public are the main factors influencing this district challenge.

We made an important step this year to improve our facilities by initiating a retrofit program to upgrade lighting and HVAC systems for additional energy savings in many of our facilities. Improved lighting and comfort have been shown to increase student achievement. We also plan to renovate other existing facilities and construct new facilities within the next five to ten years. Adhering to the facilities plan is essential in providing excellent learning environments to meet the needs of our students.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. Questions about this report or additional information needed should be directed to William S. Day, Associate Superintendent for Finance and Support (270) 769-8800, 65 W. A. Jenkins Road, Elizabethtown, Kentucky, 42701 or e-mail bday@hardin.k12.ky.us.

BASIC FINANCIAL STATEMENTS

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF NET ASSETS

June 30, 2005

Assets	Governmental Activities	Business- Type Activities	Total
<u>Current Assets</u>			
Cash and cash equivalents	\$ 20,286,219	\$ 11,057	\$ 20,297,276
Inventory		487,449	487,449
Accounts receivable:			
Taxes-current	427,376		427,376
Taxes-delinquent	24,860		24,860
Accounts receivable	67,358	5,321	72,679
Intergovernmental-State	98,442		98,442
Intergovernmental-Indirect Federal	987,116	374,581	1,361,697
Intergovernmental-Direct Federal	14,162		14,162
Bond proceeds receivable	5,313,503		5,313,503
Prepaid expenses	89,322		89,322
Total Current Assets	27,308,358	878,408	28,186,766
<u>Noncurrent Assets</u>			
Capital assets	150,081,432	3,173,523	153,254,955
Less: accumulated depreciation	(49,273,509)	(2,384,596)	(51,658,105)
Total Noncurrent Assets	100,807,923	788,927	101,596,850
Total Assets	\$ 128,116,281	\$ 1,667,335	\$ 129,783,616
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	\$ 3,126,382	\$ 120,033	\$ 3,246,415
Deferred revenue	256,370		256,370
Current portion of bond obligations	3,930,000		3,930,000
Current portion of accrued sick leave	399,469		399,469
Interest payable	603,967		603,967
Total Current Liabilities	8,316,188	120,033	8,436,221
<u>Noncurrent Liabilities</u>			
Noncurrent portion of bond obligations	64,305,000		64,305,000
Less: Deferred amount on refunding	(1,724,244)		(1,724,244)
Less: Bond discount and expense	(853,527)		(853,527)
Noncurrent portion of accrued sick leave	3,595,855		3,595,855
Total Noncurrent Liabilities	65,323,084	-	65,323,084
Total Liabilities	\$ 73,639,272	\$ 120,033	\$ 73,759,305
<u>Net Assets</u>			
Invested in capital assets, net of related debt	\$ 35,150,694	\$ 788,927	\$ 35,939,621
Restricted for:			
SFCC offer	948,845		948,845
Capital projects	7,687,761		7,687,761
Debt service	1,452,064		1,452,064
Unrestricted	9,237,645	758,375	9,996,020
Total Net Assets	\$ 54,477,009	\$ 1,547,302	\$ 56,024,311

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

FUNCTIONS/PROGRAMS

Governmental Activities:

	Expenses	Charges For Services	Program Revenues	Net (Expenses) Revenues and Changes in Net Assets		
				Governmental Activities	Business-Type Activities	Total
Instruction	\$ 59,323,777	\$ 75,793	\$ 11,730,010	\$ (47,517,974)	\$ -	\$ (47,517,974)
Support services:						
Student	5,605,345		6,140	(5,599,205)		(5,599,205)
Instruction staff	6,809,869		1,212,203	(5,597,666)		(5,597,666)
District administrative	152,897			(152,897)		(152,897)
School administrative	4,592,788		37,247	(4,555,541)		(4,555,541)
Business	1,552,608		374	(1,552,234)		(1,552,234)
Plant operation and maintenance	7,766,852		33,593	(7,733,259)		(7,733,259)
Student transportation	5,822,442	10,374	470,342	(5,341,726)		(5,341,726)
Central office	18,680			(18,680)		(18,680)
Community service activities	969,121		920,394	(48,727)		(48,727)
Other	85,900			(85,900)		(85,900)
Interest on long-term debt	2,811,411			(642,629)		(642,629)
Total Governmental Activities	95,511,690	86,167	14,410,303	(78,846,438)	-	(78,846,438)

Business-Type Activities:

Food service	6,066,875	2,644,281	3,252,102		(170,492)	(170,492)
Child care	291,463	277,360			(14,103)	(14,103)
Educational television	45,296	55,263			9,967	9,967
Total Business-Type Activities	6,403,634	2,976,904	3,252,102	-	(174,628)	(174,628)
Total Primary Government	\$101,915,324	\$ 3,063,071	\$ 17,662,405	(78,846,438)	(174,628)	(79,021,066)

General Revenues:

Taxes:						
Property taxes				16,210,560		16,210,560
Motor vehicle taxes				2,094,548		2,094,548
Utility taxes				3,687,314		3,687,314
Other taxes				2,852		2,852
Investment earnings				828,674	10,689	839,363
State and formula grants				58,159,865		58,159,865
Gain (loss) on sales of fixed assets				54,920	(530)	54,390
Miscellaneous				576,688		576,688
Special item - gain on sale of building and land				144,929		144,929
Total general revenues				81,760,350	10,159	81,770,509
Change in net assets				2,913,912	(164,469)	2,749,443
Net assets - beginning				51,563,097	1,711,771	53,274,868
Net assets - ending				\$ 54,477,009	\$ 1,547,302	\$ 56,024,311

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

HARDIN COUNTY BOARD OF EDUCATION

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2005

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets and Resources:					
Cash and cash equivalents	\$ 13,691,256	\$ -	\$ 4,314,698	\$ 2,400,909	\$ 20,406,863
Inventory					-
Accounts receivable:					
Taxes - current	427,376				427,376
Taxes - delinquent	24,860				24,860
Accounts receivable	40,727	26,631			67,358
Intergovernmental - State		98,442			98,442
Intergovernmental - Indirect Federal		889,900			889,900
Intergovernmental - Direct Federal		14,162			14,162
Bond proceeds receivable			5,313,503		5,313,503
Prepaid expenses	89,322				89,322
Total Assets and Resources	<u>\$ 14,273,541</u>	<u>\$ 1,029,135</u>	<u>\$ 9,628,201</u>	<u>\$ 2,400,909</u>	<u>\$ 27,331,786</u>
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	\$ 706,467	\$ 458,475	\$ 1,940,440	\$ -	\$ 3,105,382
Cash overdraft		120,644			120,644
Sick leave	39,467				39,467
Deferred revenue		256,370			256,370
Total Liabilities	745,934	835,489	1,940,440	-	3,521,863
Fund Balances					
Reserved for:					
Encumbrances	293,865	193,646			487,511
SFCC offer				948,845	948,845
Debt service				1,452,064	1,452,064
Construction			7,687,761		7,687,761
Sick leave	950,000				950,000
Unreserved:					
Undesignated, reported in:					
General fund	12,283,742				12,283,742
Special revenue funds					-
Capital projects funds					-
Total Fund Balances	<u>13,527,607</u>	<u>193,646</u>	<u>7,687,761</u>	<u>2,400,909</u>	<u>23,809,923</u>
Total Liabilities and Fund Balances	<u>\$ 14,273,541</u>	<u>\$ 1,029,135</u>	<u>\$ 9,628,201</u>	<u>\$ 2,400,909</u>	<u>\$ 27,331,786</u>

HARDIN COUNTY BOARD OF EDUCATION

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total fund balance per fund financial statements	\$ 23,809,923
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	100,807,923
Certain receivables are not reported in the fund financial statement because they are not within the district's recognition period under modified accrual, but they are presented in the statement of net assets.	97,216
Certain liabilities (such as bonds and capital leases, certain payables, accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(70,238,053)</u>
Net assets for governmental activities	<u>\$ 54,477,009</u>

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

Year Ended June 30, 2005

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$ 14,221,767	\$ -	\$ -	\$ 1,988,793	\$ 16,210,560
Motor vehicle	2,094,548				2,094,548
Utilities	3,687,314				3,687,314
Other taxes	2,852				2,852
Earnings on investments	543,749	7,815	214,884	62,226	828,674
Other local revenues	441,852	94,290	165,840		701,982
Intergovernmental - State	58,159,865	4,511,638		4,964,832	67,636,335
Intergovernmental - Indirect Federal	72,143	6,529,181			6,601,324
Intergovernmental - Direct Federal	208,951	155,996			364,947
Total Revenues	79,433,041	11,298,920	380,724	7,015,851	98,128,536
Expenditures:					
Instruction	47,859,821	8,949,927			56,809,748
Support services:					
Student	5,599,204	6,140			5,605,344
Instruction staff	5,597,666	1,212,203			6,809,869
District administrative	717,049				717,049
School administrative	4,484,014	37,247			4,521,261
Business	1,531,797	374			1,532,171
Plant operation and maintenance	7,748,230	33,593			7,781,823
Student transportation	5,479,420	470,342			5,949,762
Facilities acquisition and construction			12,201,322		12,201,322
Community service activities	48,727	920,394			969,121
Other	81,906			6,223	88,129
Bond issue costs			32,397		32,397
Refunding bond issue costs				255,139	255,139
Debt service:					
Principal				3,200,000	3,200,000
Interest				2,859,185	2,859,185
Total Expenditures	79,147,834	11,630,220	12,233,719	6,320,547	109,332,320
Excess (Deficit) of Revenues over Expenditures	285,207	(331,300)	(11,852,995)	695,304	(11,203,784)
Other Financing Sources (Uses):					
Proceeds from sale of bonds			5,455,000		5,455,000
Bond discount			(109,100)		(109,100)
Proceeds of refunding bonds				20,260,000	20,260,000
Payment to bond escrow agent				(20,004,861)	(20,004,861)
Proceeds from sale of fixed assets	43,251				43,251
Operating transfers in		164,999	192,980	3,855,456	4,213,435
Operating transfers out	(357,979)			(3,855,456)	(4,213,435)
Total Other Financing Sources (Uses)	(314,728)	164,999	5,538,880	255,139	5,644,290
Excess (Deficit) of Revenue and Other Financing Sources over Expenditures and Other Financing Uses	(29,521)	(166,301)	(6,314,115)	950,443	(5,559,494)
Special item-sale of building and land	174,945				174,945
Net Change in Fund Balances	145,424	(166,301)	(6,314,115)	950,443	(5,384,549)
Fund Balance, July 1, 2004	13,382,183	359,947	14,001,876	1,450,466	29,194,472
Fund Balance, June 30, 2005	\$ 13,527,607	\$ 193,646	\$ 7,687,761	\$ 2,400,909	\$ 23,809,923

HARDIN COUNTY BOARD OF EDUCATION

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Net change in total fund balances per fund financial statements	\$ (5,384,549)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	9,682,198
The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net assets.	(5,345,900)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	3,200,000
In the statement of activities, only the gain (loss) on sale of fixed assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.	(18,347)
Generally, revenues recognized in this fund financial statement are limited to only those that are measurable and available, but revenues are recognized in the statement of activities when they are earned.	97,216
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>683,294</u>
Change in net assets of governmental activities	<u>\$ 2,913,912</u>

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2005

	Food Service Fund	Other Enterprise Funds	Total Enterprise Funds
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ -	\$ 97,101	\$ 97,101
Inventory	487,449		487,449
Accounts receivable	5,321		5,321
Intergovernmental receivable - Indirect Federal	374,581		374,581
Total Current Assets	867,351	97,101	964,452
<u>Noncurrent Assets</u>			
Capital assets	3,173,523		3,173,523
Less: accumulated depreciation	(2,384,596)		(2,384,596)
Total Noncurrent Assets	788,927	-	788,927
Total Assets	1,656,278	97,101	1,753,379
Liabilities			
<u>Current Liabilities</u>			
Cash overdraft	86,044		86,044
Accounts payable	113,934	6,099	120,033
Total Current Liabilities	199,978	6,099	206,077
<u>Net Assets</u>			
Invested in capital assets, net of related debt	788,927		788,927
Unrestricted	667,373	91,002	758,375
Total Net Assets	\$ 1,456,300	\$ 91,002	\$ 1,547,302

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

Year Ended June 30, 2005

	Food Service Fund	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues:			
Lunchroom sales	\$ 2,644,281	\$ -	\$ 2,644,281
Tuition and fees		332,623	332,623
Total Operating Revenues	2,644,281	332,623	2,976,904
Operating Expenses:			
Salaries and wages	2,689,711	270,289	2,960,000
Materials and supplies	3,068,756	31,528	3,100,284
Depreciation	148,999		148,999
Other operating expenses	159,409	34,942	194,351
Total Operating Expenses	6,066,875	336,759	6,403,634
Operating income (loss)	(3,422,594)	(4,136)	(3,426,730)
Non-Operating Revenues (Expenses)			
Federal grants	2,908,450		2,908,450
Donated commodities	265,982		265,982
State grants	77,670		77,670
Interest income	10,689		10,689
Loss on disposal of fixed assets	(530)		(530)
Total Non-Operating Revenues (Expenses) Before Operating Transfers	3,262,261		3,262,261
Changes in net assets	(160,333)	(4,136)	(164,469)
Net Assets, July 1, 2004	1,616,633	95,138	1,711,771
Net Assets, June 30, 2005	\$ 1,456,300	\$ 91,002	\$ 1,547,302

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2005

	Food Service Fund	Other Enterprise Funds	Total Enterprise Funds
Cash Flows from Operating Activities			
Cash received from:			
Lunchroom sales	\$ 2,646,103	\$ -	\$ 2,646,103
Tuition and fees		338,013	338,013
Cash paid to/for:			
Employees	(2,689,711)	(270,289)	(2,960,000)
Supplies	(2,701,500)	(27,484)	(2,728,984)
Other activities	(159,409)	(34,942)	(194,351)
Net Cash Provided (Used) by Operating Activities	(2,904,517)	5,298	(2,899,219)
Cash flows from Non-Capital and Related Financing Activities			
Federal grants	2,588,642		2,588,642
State grants	77,670		77,670
Net Cash Provided by Non-Capital and Related Financing Activities	2,666,312	-	2,666,312
Cash Flows from Capital and Related Financing Activities			
Purchases of capital assets	(133,514)	-	(133,514)
Cash Flows from Investing Activities			
Receipt of interest income	10,689		10,689
Net increase (decrease) in cash and cash equivalents	(361,030)	5,298	(355,732)
Balances, beginning of year	274,986	91,803	366,789
Balances, end of year	<u>\$ (86,044)</u>	<u>\$ 97,101</u>	<u>\$ 11,057</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating loss	\$ (3,422,594)	\$ (4,136)	\$ (3,426,730)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	148,999		148,999
Donated commodities	265,982		265,982
Change in assets and liabilities:			
Accounts receivable	1,822	5,390	7,212
Inventory	33,073		33,073
Accounts payable	68,201	4,044	72,245
Net cash provided (used) by operating activities	<u>\$ (2,904,517)</u>	<u>\$ 5,298</u>	<u>\$ (2,899,219)</u>
Schedule of non-cash transactions:			
Donated commodities received from federal government	<u>\$ 265,982</u>	<u>\$ -</u>	<u>\$ 265,982</u>
Capital asset disposals (net)	<u>\$ 530</u>	<u>\$ -</u>	<u>\$ 530</u>

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2005

	Private Purpose Trust Funds	Agency Fund
Assets		
Cash and cash equivalents	\$ 171,860	\$ 981,884
Accounts receivable		84,029
Total Assets	<u>\$ 171,860</u>	<u>\$ 1,065,913</u>
Liabilities		
Accounts payable	\$ -	\$ 87,924
Due to student groups		977,989
Total Liabilities	<u>\$ -</u>	<u>\$ 1,065,913</u>
Net Assets Held in Trust	<u>\$ 171,860</u>	<u>\$ -</u>

See accompanying notes to financial statements.

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

Year Ended June 30, 2005

	Private Purpose Trust Funds
Additions	
Net interest and investment gains	\$ 4,396
Other additions	250
Deductions	
Scholarships paid	<u>(1,600)</u>
Change in net assets	3,046
Net Assets, beginning of year	<u>168,814</u>
Net Assets, end of year	<u><u>\$ 171,860</u></u>

See accompanying notes to financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Hardin County Board of Education ("Board"), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Hardin County Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the District has elected to apply to its proprietary activities, Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Hardin County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Hardin County School District Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Hardin County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors. The Corporation is blended into the District's financial statements.

Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of net assets presents the financial condition of the governmental and business-type activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in fund balances. Proprietary funds are reported using the economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases and decreases in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities. Fiduciary funds are also reported using the economic resources measurement focus.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 54 through 55. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

- 1. The Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. This is a major fund of the District.
- 2. The School Age Child Care program is used to account for funds received from tuition fees charges for after school care of students.
- 3. The Educational Television program is used to account for funds received from production services and the sale of recorded media.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

III. Fiduciary Fund Type (Agency Fund)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.
- B. The Private Purpose Trust Funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting - Continued

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are normally levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund. The usual collection date is the period from November 1 through December 31. Property tax bills paid prior to December 1 received a two percent discount. Property taxes received after December 31, are considered to be delinquent and the County Attorney can file a lien against the property.

The property tax rates assessed for the year ended June 30, 2005, to finance operations were \$.447 per \$100 valuation for real property, \$.456 per \$100 valuation for business personal property and \$.540 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	5-15 years
Food service equipment	5-12 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. All budget appropriations lapse at year-end.

Encumbrances

Encumbrances are not liabilities and, therefore, are not reported as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2005.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Receivables

The District recognizes revenues as receivable when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions.

Accrued Liabilities and Long-Term Obligations

All payables accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, sick leave, capital projects and debt service requirements.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restrictions for capital projects and debt service were present at year-end.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools and for childcare services provided.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE B – PRIOR PERIOD ADJUSTMENT

For the fiscal year ended June 30, 2005, the District restated beginning governmental activities net assets as described below:

	<u>Governmental Activities</u>
Net Assets, June 30, 2004	\$ 52,550,710
Reclassifications to construction in progress	388,812
Items recorded as assets in error	(788,475)
Items not recorded as capital assets until current year	(334,605)
Depreciation correction	<u>(253,345)</u>
Restated Net Assets, June 30, 2004	<u>\$ 51,563,097</u>

The restatement resulted in a change in fixed assets as follows:

<u>Asset</u>	<u>Beginning Balance</u>	<u>Restatement</u>	<u>Restated Beginning Balance</u>
Land	\$ 4,353,912	\$ (2,349,346)	\$ 2,004,566
Land improvements	2,582,796	2,349,346	4,932,142
Buildings	94,947,427	(1,123,080)	93,824,347
Construction in progress	11,861,626	388,812	12,250,438
Accumulated depreciation - land improvements	1,820,369	117,467	1,937,836
Accumulated depreciation - buildings	26,175,825	135,538	26,311,363
Accumulated depreciation - technology equipment	8,817,177	340	8,817,517

NOTE C – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE D – CASH AND CASH EQUIVALENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2005, \$771,059 of the District's bank balance of \$29,543,112 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized \$ 771,059

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

Governmental Activities	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Non-Depreciable Assets:				
Land	\$ 2,004,563	\$ -	\$ (7,160)	\$ 1,997,403
Construction in progress	12,250,438	12,224,551	(13,295,908)	11,179,081
Depreciable Assets:				
Land improvements	4,932,142	146,421	(91,531)	4,987,032
Buildings and improvements	93,824,347	13,149,486	(432,662)	106,541,171
Technology equipment	10,839,619	568,509	(1,839,602)	9,568,526
Vehicles	8,842,869	741,134	(386,400)	9,197,603
General equipment	6,433,785	240,631	(63,800)	6,610,616
Totals at historical cost	139,127,763	27,070,732	(16,117,063)	150,081,432
Accumulated depreciation:				
Land improvements	1,937,836	246,160	(87,996)	2,096,000
Buildings and improvements	26,311,363	2,081,998	(409,806)	27,983,555
Technology equipment	8,817,517	949,288	(1,862,534)	7,904,271
Vehicles	5,643,512	597,623	(386,400)	5,854,735
General equipment	5,294,462	196,558	(56,072)	5,434,948
Total accumulated depreciation	48,004,690	4,071,627	(2,802,808)	49,273,509
Government Activities Capital Assets - Net	<u>\$ 91,123,073</u>	<u>\$ 22,999,105</u>	<u>\$ (13,314,255)</u>	<u>\$ 100,807,923</u>
Business-Type Activities				
Non-Depreciable Assets:				
Land	\$ 16,790	\$ -	\$ -	\$ 16,790
Depreciable Assets:				
Land improvements	20,202			20,202
Buildings and improvements	318,523			318,523
Technology equipment	166,645	4,181	(16,041)	154,785
Vehicles	59,512			59,512
General equipment	2,621,037	129,333	(146,659)	2,603,711
Totals at historical cost	3,202,709	133,514	(162,700)	3,173,523
Accumulated depreciation:				
Land improvements	19,698	505		20,203
Buildings and improvements	241,386	6,371		247,757
Technology equipment	136,414	20,459	(15,397)	141,476
Vehicles	51,591	5,281		56,872
General equipment	1,948,678	116,383	(146,773)	1,918,288
Total accumulated depreciation	2,397,767	148,999	(162,170)	2,384,596
Business-type Activities Capital Assets - Net	<u>\$ 804,942</u>	<u>\$ (15,485)</u>	<u>\$ (530)</u>	<u>\$ 788,927</u>
Depreciation was charged to governmental functions as follows:				
Instruction	\$ 3,273,281			
District administration	38,971			
School administration	77,428			
Business support	26,028			
Plant	59,933			
Transportation	577,306			
Central office	18,680			
	<u>\$ 4,071,627</u>			

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE F – LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date, and interest rates are summarized below:

Issue Date	Proceeds	Rates
July 1996	\$ 4,665,000	4.00% - 6.00%
September 1998	15,885,000	3.50% - 4.25%
February 2000	19,760,000	5.00% - 5.75%
July 2001A	9,405,000	4.10% - 4.75%
July 2001B	2,415,000	3.75% - 4.25%
December 2002	2,915,000	1.25% - 3.20%
July 2003	9,310,000	1.75% - 4.00%
June 2004	9,290,000	3.50% - 4.50%
February 2005	2,910,000	2.50% - 3.70%
June 2005 Energy	5,455,000	3.30% - 4.20%
June 2005 Refunding	17,350,000	3.00% - 4.00%

On June 21, 2005, the District issued \$5,455,000 in 2005 Series Revenue Bonds with an average interest rate of 4.12 percent for an energy conservation project. The net proceeds of \$5,329,008 (after \$32,397 in cost of issuance and \$109,100 of discount and \$15,505 in accrued interest) were deposited after the fiscal year-end; \$5,313,503 in the Construction Fund and \$15,505 in the Debt Service Fund. A receivable was established in the Construction Fund for these proceeds at year-end.

On February 18, 2005, the District issued \$2,910,000 in Refunding Revenue Bonds with an average interest rate of 3.49 percent to advance refund \$2,675,000 of outstanding 1996 Series revenue bonds with an average interest rate of 5 percent. The refunding was a partial advance refunding and \$650,000 of the 1996 Series bonds remained outstanding. The net proceeds of \$2,843,440 (after \$66,560 in bond discount and \$9,463 in accrued interest which was deposited in the bond payment fund) were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 1996 Series bonds. As a result, that portion of the 1996 Series bonds is considered defeased and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$2,910,000 at June 30, 2005.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$168,440. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being charged to operations through the year 2017 using the effective-interest method.

The District completed the refunding to reduce its total debt service payments over the next 12 years by \$271,411 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$137,112.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

On June 21, 2005, the District issued \$17,350,000 in Refunding Revenue Bonds with an average interest rate of 4.02 percent to advance refund \$15,515,000 of outstanding 2000 Series revenue bonds with an average interest rate of 5.38 percent. The refunding was a partial advance refunding and \$2,040,000 of the 2000 Series bonds remained outstanding. The net proceeds of \$17,161,422 (after \$188,578 in bond discount and \$51,302 in accrued interest which was deposited in the bond payment fund) were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2000 Series bonds. As a result, that portion of the 2000 Series bonds is considered defeased and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$17,350,000 at June 30, 2005.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,646,422. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being charged to operations through the year 2017 using the effective-interest method.

The District completed the refunding to reduce its total debt service payments over the next 12 years by \$891,632 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$745,947.

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Hardin County Board of Education Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2005, for debt service (principal and interest) are as follows:

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2006	\$ 3,930,000	\$ 2,449,480	\$ 2,185,794	\$ 4,193,686
2007	3,810,000	2,552,350	2,179,722	4,182,628
2008	3,960,000	2,401,169	2,178,326	4,182,843
2009	4,120,000	2,244,515	2,173,924	4,190,591
2010	4,270,000	2,082,669	2,170,276	4,182,393
2011-2015	16,115,000	8,472,484	3,672,048	20,915,436
2016-2020	18,160,000	5,136,815	2,312,917	20,983,898
2021-2025	13,870,000	1,318,166	1,020,157	14,168,009
	<u>\$ 68,235,000</u>	<u>\$ 26,657,648</u>	<u>\$ 17,893,164</u>	<u>\$ 76,999,484</u>

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Long-term liability for the year ended June 30, 2005, was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2005</u>	<u>Amounts Due Within One Year</u>
Revenue bonds payable	\$ 63,910,000	\$ 25,715,000	\$ 21,390,000	\$ 68,235,000	\$ 3,930,000
Accrued sick leave	4,558,983	-	563,659	3,995,324	399,469
	<u>\$ 68,468,983</u>	<u>\$ 25,715,000</u>	<u>\$ 21,953,659</u>	<u>\$ 72,230,324</u>	<u>\$ 4,329,469</u>

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and FSPK funds. The general fund is primarily responsible for paying accrued sick leave.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE G – RETIREMENT PLANS

All the District's eligible employees participate in the Kentucky Teacher's Retirement System (KTRS), a statewide multiple-employer public employee retirement system covering all employees of local school districts within the State of Kentucky. KTRS is a cost sharing public employee retirement system with one exception: all risks and costs are not shared by the District but are the liability of the State of Kentucky. KTRS is funded through state and employee contributions and the District has no legal obligation for paying benefits. As discussed below, the District may be required in certain situations to make limited contributions on behalf of certain employees.

The State of Kentucky contributes 13.105% of the employee's gross earnings except for those District employees being paid from and participating in federally funded programs. During the year, contributions of \$6,062,628 were made by the State of Kentucky and \$309,911 in contributions were passed through the District's federally funded programs. Contributions by the employees are 9.855% of gross earnings and are withheld by the District. Such withholdings totaled \$4,797,893 during the year and were paid by the District to the State of Kentucky. The District has no other liability under the plan. The District's total payroll for all employees during the year was \$63,713,869, and \$48,911,497 of such amount related to employees covered by the retirement plan.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% and a District contribution of 8.48% of the employee's total compensation subject to contribution. The District's contribution requirement for CERS for the year ended June 30, 2005 was \$1,986,747, which consisted of \$1,235,104 from the District and \$751,643 from the employees. The total covered payroll for CERS during the year was \$14,513,556. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

Additional information and historical trend information can be obtained from the separately issued Teacher Retirement System of Kentucky Comprehensive Annual Financial Report.

Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The Board therefore does not show these assets and liabilities on this financial statement.

NOTE H– COMMITMENTS

During the year ended June 30, 2005, the Board entered into construction contracts for the renovation of West Hardin and East Hardin Middle Schools and the construction of Creekside Elementary School.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE I – CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE J – LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress, except as described elsewhere in this report.

NOTE K – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include workers' compensation insurance.

NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2005

NOTE M – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Special Revenue Fund	\$ 166,301
Construction Fund	6,314,115

NOTE N – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss.

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 164,999
Operating	General	Construction	Construction	192,980
Operating	SEEK Capital Outlay	Debt Service	Debt Service	288,143
Operating	FSPK Fund	Debt Service	Debt Service	3,567,313

NOTE P – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2005.

NOTE Q – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2005, was \$12,927,663.

REQUIRED SUPPLEMENTARY INFORMATION

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL

GENERAL FUND

Year Ended June 30, 2005

	Original	Final	Actual
Revenues:			
From local sources:			
Taxes:			
Property	\$ 14,205,000	\$ 13,305,000	\$ 14,221,767
Motor vehicle	2,100,000	2,100,000	2,094,548
Utilities	3,000,000	3,000,000	3,687,314
Other	3,000	3,000	2,852
Earnings on investments	400,000	400,000	543,749
Other local revenues	317,203	416,338	441,852
Intergovernmental - State	43,873,666	44,227,268	58,159,865
Intergovernmental - Indirect Federal			72,143
Intergovernmental - Direct Federal	240,000	240,000	208,951
Total Revenues	64,138,869	63,691,606	79,433,041
Expenditures:			
Instruction	41,616,151	43,387,611	47,859,821
Support services:			
Student	4,188,554	5,009,782	5,599,204
Instruction staff	2,578,571	4,381,613	5,597,666
District administrative	3,524,532	650,999	717,049
School administrative	4,600,851	4,495,382	4,484,014
Business	1,247,220	2,048,063	1,531,797
Plant operation and maintenance	7,093,423	7,402,473	7,748,230
Student transportation	5,209,431	5,013,483	5,479,420
Central office	2,062,942	-	-
Community service activities	62,112	105,235	48,727
Other	93,878	3,457,011	81,906
Total Expenditures	72,277,665	75,951,652	79,147,834
Excess (Deficit) of Revenues over Expenditures	(8,138,796)	(12,260,046)	285,207
Other Financing Sources (Uses):			
Proceeds from sale of fixed assets	25,000	25,000	43,251
Operating transfers in	147,864	147,864	
Operating transfers out	(125,000)	(344,999)	(357,979)
Total Other Financing Sources (Uses)	47,864	(172,135)	(314,728)
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(8,090,932)	(12,432,181)	(29,521)
Special item - sale of building and land			174,945
Net Change in Fund Balance	(8,090,932)	(12,432,181)	145,424
Fund Balance, July 1, 2004	8,090,932	12,432,181	13,382,183
Fund Balance, June 30, 2005	\$ -	\$ -	\$ 13,527,607

EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES

Both inflows and outflows are equally different in the Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds by the amount of on-behalf payments of \$12,927,663.

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL

SPECIAL REVENUE FUND

Year Ended June 30, 2005

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
Earnings on investments	\$ -	\$ 2,664	\$ 7,815
Other local revenues	40,000	106,295	94,290
Intergovernmental - State	4,004,921	4,599,133	4,511,638
Intergovernmental - Indirect Federal	6,521,434	6,967,722	6,529,181
Intergovernmental - Direct Federal	130,703	130,703	155,996
Total Revenues	<u>10,697,058</u>	<u>11,806,517</u>	<u>11,298,920</u>
Expenditures:			
Instruction	9,184,525	8,903,276	8,949,927
Support services:			
Student	8,378	4,400	6,140
Instruction staff	626,040	1,538,404	1,212,203
School administrative			37,247
Business		-	374
Plant operation and maintenance	3,921	48,398	33,593
Student transportation	139,362	437,558	470,342
Community service activities	854,098	955,784	920,394
Total Expenditures	<u>10,816,324</u>	<u>11,887,820</u>	<u>11,630,220</u>
Excess (Deficit) of Revenues over Expenditures	(119,266)	(81,303)	(331,300)
Other Financing Sources (Uses):			
Operating transfers in	119,266	81,303	164,999
Total Other Financing Sources (Uses)	<u>119,266</u>	<u>81,303</u>	<u>164,999</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	-	-	(166,301)
Fund Balance, July 1, 2004	<u>-</u>	<u>-</u>	<u>359,947</u>
Fund Balance, June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 193,646</u>

SUPPLEMENTARY INFORMATION

HARDIN COUNTY BOARD OF EDUCATION

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2005

	Capital Outlay Fund	FSPK Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets:				
Cash and cash equivalents	\$ 948,845	\$ -	\$ 1,452,064	\$ 2,400,909
Total Assets and Resources	<u>\$ 948,845</u>	<u>\$ -</u>	<u>\$ 1,452,064</u>	<u>\$ 2,400,909</u>
Liabilities and Fund Balances:				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total Liabilities	-	-	-	-
Fund Balances				
Reserved for:				
Debt service			1,452,064	1,452,064
SFCC offer	948,845			948,845
Unreserved:				
Undesignated, reported in:				
Capital projects funds				-
Total Fund Balances	<u>948,845</u>	<u>-</u>	<u>1,452,064</u>	<u>2,400,909</u>
Total Liabilities and Fund Balances	<u>\$ 948,845</u>	<u>\$ -</u>	<u>\$ 1,452,064</u>	<u>\$ 2,400,909</u>

HARDIN COUNTY BOARD OF EDUCATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2005

	Capital Outlay Fund	FSPK Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ -	\$ 1,988,793	\$ -	\$ 1,988,793
Earnings on investments			62,226	62,226
Intergovernmental - State	1,215,970	1,580,080	2,168,782	4,964,832
Total Revenues	1,215,970	3,568,873	2,231,008	7,015,851
Expenditures				
Facilities and construction				
Other	4,663	1,560		6,223
Debt service:				
Principal			3,200,000	3,200,000
Interest			2,859,185	2,859,185
Refunding bond issuance costs			255,139	255,139
Total Expenditures	4,663	1,560	6,314,324	6,320,547
Excess (Deficit) of Revenues over Expenditures	1,211,307	3,567,313	(4,083,316)	695,304
Other Financing Sources (Uses)				
Operating transfers in			3,855,456	3,855,456
Operating transfers out	(288,143)	(3,567,313)		(3,855,456)
Proceeds of refunding bonds			20,260,000	20,260,000
Payment to bond escrow agent			(20,004,861)	(20,004,861)
Total Other Financing Sources (Uses)	(288,143)	(3,567,313)	4,110,595	255,139
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	923,164	-	27,279	950,443
Fund balance, July 1, 2004	25,681	-	1,424,785	1,450,466
Fund balance, June 30, 2005	<u>\$ 948,845</u>	<u>\$ -</u>	<u>\$ 1,452,064</u>	<u>\$ 2,400,909</u>

HARDIN COUNTY BOARD OF EDUCATION

**COMBINING STATEMENT OF NET ASSETS - NONMAJOR PROPRIETARY FUNDS
- ENTERPRISE FUNDS**

June 30, 2005

	<u>School Age Child Care</u>	<u>Educational Television</u>	<u>Total Other Enterprise Funds</u>
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	<u>\$ 82,130</u>	<u>\$ 14,971</u>	<u>\$ 97,101</u>
Total Current Assets	<u>82,130</u>	<u>14,971</u>	<u>97,101</u>
 Liabilities			
<u>Current Liabilities</u>			
Accounts payable	<u>5,318</u>	<u>781</u>	<u>6,099</u>
Total Current Liabilities	<u>5,318</u>	<u>781</u>	<u>6,099</u>
 <u>Net Assets</u>			
Unrestricted	<u>76,812</u>	<u>14,190</u>	<u>91,002</u>
Total Net Assets	<u><u>\$ 76,812</u></u>	<u><u>\$ 14,190</u></u>	<u><u>\$ 91,002</u></u>

HARDIN COUNTY BOARD OF EDUCATION

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - NONMAJOR ENTERPRISE FUNDS - PROPRIETARY FUNDS

Year Ended June 30, 2005

	School Age Child Care	Educational Television	Total Other Enterprise Funds
Operating Revenues:			
Tuition and fees	\$ 277,360	\$ 55,263	\$ 332,623
Total Operating Revenues	277,360	55,263	332,623
Operating Expenses:			
Salaries and wages	244,439	25,850	270,289
Materials and supplies	26,925	4,603	31,528
Other operating expenses	20,099	14,843	34,942
Total Operating Expenses	291,463	45,296	336,759
Operating income (loss)/changes in net assets	(14,103)	9,967	(4,136)
Net Assets, July 1, 2004	90,915	4,223	95,138
Net Assets, June 30, 2005	\$ 76,812	\$ 14,190	\$ 91,002

HARDIN COUNTY BOARD OF EDUCATION

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS - PROPRIETARY FUNDS

Year Ended June 30, 2005

	School Age Child Care	Educational Television	Total Other Enterprise Funds
Cash Flows from Operating Activities			
Cash received from:			
Tuition and fees	\$ 282,750	\$ 55,263	\$ 338,013
Cash paid to/for:			
Employees	(244,439)	(25,850)	(270,289)
Supplies	(23,030)	(4,454)	(27,484)
Other activities	(20,099)	(14,843)	(34,942)
Net Cash Provided (Used) by Operating Activities	<u>(4,818)</u>	<u>10,116</u>	<u>5,298</u>
Net increase (decrease) in cash and cash equivalents	(4,818)	10,116	5,298
Balances, beginning of year	<u>86,948</u>	<u>4,855</u>	<u>91,803</u>
Balances, end of year	<u>\$ 82,130</u>	<u>\$ 14,971</u>	<u>\$ 97,101</u>
Reconciliation of operating income (loss) to net cash used by operating activities:			
Operating income (loss)	\$ (14,103)	\$ 9,967	\$ (4,136)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Change in assets and liabilities:			
Accounts receivable	5,390		5,390
Accounts payable	3,895	149	4,044
Net cash provided (used) by operating activities	<u>\$ (4,818)</u>	<u>\$ 10,116</u>	<u>\$ 5,298</u>

HARDIN COUNTY BOARD OF EDUCATION

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

AGENCY FUNDS

June 30, 2005

	Bluegrass Middle School	Brown Street Education Center	Central Hardin High School	East Hardin Middle School	G.C. Burkhead Elementary	J.T. Alton Middle School
Assets						
Cash and cash equivalents	\$ 35,563	\$ 4,275	\$ 105,530	\$ 62,656	\$ 86,915	\$ 95,277
Accounts receivable	1,827	1,783	6,660	13,237	2,280	2,680
Total Assets	<u>\$ 37,390</u>	<u>\$ 6,058</u>	<u>\$ 112,190</u>	<u>\$ 75,893</u>	<u>\$ 89,195</u>	<u>\$ 97,957</u>
Liabilities						
Accounts payable	\$ 2,359	\$ -	\$ 32,199	\$ 3,364	\$ 1,535	\$ 1,354
Due to student groups	35,031	6,058	79,991	72,529	87,660	96,604
Total Liabilities	<u>\$ 37,390</u>	<u>\$ 6,058</u>	<u>\$ 112,190</u>	<u>\$ 75,893</u>	<u>\$ 89,195</u>	<u>\$ 97,957</u>
	Howe Valley Elementary	John Hardin High School	Lakewood Elementary	Lincoln Trail Elementary	Meadowview Elementary	New Highland Elementary
Assets						
Cash and cash equivalents	\$ 16,503	\$ 83,379	\$ 14,983	\$ 41,938	\$ 12,636	\$ 26,502
Accounts receivable	-	5,801	68	3,585	-	1,598
Total Assets	<u>\$ 16,503</u>	<u>\$ 89,179</u>	<u>\$ 15,051</u>	<u>\$ 45,523</u>	<u>\$ 12,636</u>	<u>\$ 28,100</u>
Liabilities						
Accounts payable	\$ 802	\$ 1,650	\$ -	\$ -	\$ -	\$ -
Due to student groups	15,701	87,530	15,051	45,523	12,636	28,100
Total Liabilities	<u>\$ 16,503</u>	<u>\$ 89,179</u>	<u>\$ 15,051</u>	<u>\$ 45,523</u>	<u>\$ 12,636</u>	<u>\$ 28,100</u>
	North Hardin High School	Radcliff Middle School	Rineyville Elementary	Sonora Elementary	Upton Elementary	Vine Grove Elementary
Assets						
Cash and cash equivalents	\$ 198,699	\$ 30,094	\$ 32,550	\$ 16,197	\$ 9,318	\$ 21,371
Accounts receivable	37,583	336	4,295	-	-	1,156
Total Assets	<u>\$ 236,282</u>	<u>\$ 30,430</u>	<u>\$ 36,845</u>	<u>\$ 16,197</u>	<u>\$ 9,318</u>	<u>\$ 22,527</u>
Liabilities						
Accounts payable	\$ 42,042	\$ 40	\$ 246	\$ 99	\$ -	\$ 1,930
Due to student groups	194,241	30,390	36,599	16,098	9,318	20,598
Total Liabilities	<u>\$ 236,282</u>	<u>\$ 30,430</u>	<u>\$ 36,845</u>	<u>\$ 16,197</u>	<u>\$ 9,318</u>	<u>\$ 22,527</u>
	West Hardin Middle School	Parkway Elementary	Woodland Elementary	Total Agency Fund		
Assets						
Cash and cash equivalents	\$ 38,630	\$ 31,323	\$ 17,545	\$ 981,884		
Accounts receivable	-	-	1,140	84,029		
Total Assets	<u>\$ 38,630</u>	<u>\$ 31,323</u>	<u>\$ 18,685</u>	<u>\$ 1,065,913</u>		
Liabilities						
Accounts payable	\$ -	\$ 306	\$ -	\$ 87,924		
Due to student groups	38,630	31,017	18,685	977,989		
Total Liabilities	<u>\$ 38,630</u>	<u>\$ 31,323</u>	<u>\$ 18,685</u>	<u>\$ 1,065,913</u>		

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES

CENTRAL HARDIN HIGH SCHOOL

YEAR ENDED JUNE 30, 2005

NAME OF ACTIVITY	CASH BALANCES July 1, 2004	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2005	ACCOUNTS RECEIVABLE AND DUE FROM OTHER FUNDS June 30, 2005	ACCOUNTS PAYABLE AND DUE TO OTHER FUNDS June 30, 2005	FUND BALANCES June 30, 2005
Academic Team	\$ -	\$ 5,286	\$ 5,038	\$ 248	\$ 240	\$ 248	\$ 240
Agriculture Department	20	5,366	2,979	2,406	-	-	2,406
Art Club	516	538	215	839	-	-	839
Art Department	22	-	-	22	-	-	22
Astronomy Club	521	2,145	1,320	1,346	-	-	1,346
Athletic Fund	5,555	24,740	29,383	912	650	785	777
B.A.D. Club	158	70	106	122	-	-	122
Band	501	1,695	1,669	527	-	-	527
Baseball	-	20,559	20,460	99	-	99	-
Beta Club	1,002	6,701	6,597	1,105	-	-	1,105
Bookstore	8,025	4,788	12,029	783	-	-	783
Boy's Basketball	3,487	34,498	33,787	4,198	-	60	4,138
Bruin Educator's Club	363	899	1,097	165	-	-	165
Business Education Dept.	859	9,222	4,535	5,546	-	903	4,643
Cheerleaders	26	5,245	5,272	-	-	-	-
Chess Club	-	85	29	56	-	-	56
CHHS Young Democrats	-	156	155	1	-	-	1
Chorus	3,572	10,387	11,867	2,093	-	-	2,093
Close Up Foundation	148	-	-	148	-	-	148
Concessions Athletics	207	17,250	17,385	72	-	-	72
Counseling Dept.	2,459	22,327	22,713	2,073	-	-	2,073
Cross Country	593	4,080	2,663	2,011	-	1,488	523
Dance Team	-	369	333	36	-	-	36
Elbert Watts Scholarship	-	-	-	-	-	-	-
English Club	110	-	-	110	-	-	110
English Department	1,138	2,639	2,737	1,040	-	-	1,040
Environmental Club	-	-	-	-	-	-	-
Facility Usage	-	-	-	-	-	-	-
FACS	330	421	434	317	-	-	317
Faculty Flower Fund	191	34	225	-	-	-	-
Faculty Gift Fund	59	-	-	59	-	-	59
FBLA	957	2,992	3,126	822	-	-	822
FCCLA	377	6,736	6,681	431	-	-	431
FFA	3,262	50,214	48,875	4,601	-	1,178	3,423
Football	6,348	31,093	29,918	7,523	-	6,767	757
Foreign Language Dept.	-	2,878	2,822	56	-	-	56
French Club	14	190	176	27	-	-	27
German Club	61	1,357	1,323	96	-	-	96
Girl's Basketball	1,529	8,796	8,827	1,498	-	145	1,354
Golf	20	3,434	3,454	-	-	-	-
Grade 10	51	-	-	51	-	-	51
Grade 11	6	-	-	6	-	-	6
Grade 12	2,559	16,626	16,571	2,614	-	-	2,614
Grade 9	-	-	-	-	-	-	-
Journalism	237	6,997	7,043	191	-	107	84
Jr. ROTC	2,216	5,360	5,480	2,095	-	-	2,095
Junior Beta Club	336	-	-	336	-	-	336
Library	4,004	1,482	1,340	4,146	-	-	4,146
Math Department	2,211	250	520	1,940	-	-	1,940
Matmaids	845	765	966	644	-	-	644
Medical Career Club	-	-	-	-	-	-	-
MMD Department	297	1,411	891	817	-	-	817
Multi Cultural Enrichment	-	-	-	-	-	-	-
Physical Education Dept.	3,452	9,275	12,727	-	-	-	-

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES

CENTRAL HARDIN HIGH SCHOOL-CONCLUDED

YEAR ENDED JUNE 30, 2005

NAME OF ACTIVITY	CASH BALANCES July 1, 2004	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2005	ACCOUNTS RECEIVABLE AND DUE FROM OTHER FUNDS June 30, 2005	ACCOUNTS PAYABLE AND DUE TO OTHER FUNDS June 30, 2005	FUND BALANCES June 30, 2005
Project Graduation Fund	731	7,612	8,016	327	-	-	327
School Concessions-Faculty	1,044	15,687	15,337	1,394	152	14	1,532
School Concessions-Student	2,009	4,114	5,398	725	767	-	1,492
School Fund	4,932	47,808	40,784	11,956	3,245	10,398	4,803
Science Department	-	2,749	2,166	582	-	-	582
Soccer Boy's	525	4,950	5,196	280	-	280	-
Soccer Girl's	595	7,298	7,613	280	-	280	-
Social Studies Department	-	1,823	1,783	40	-	40	-
Softball	2,103	6,106	8,209	-	-	-	-
Spanish Club	988	220	-	1,208	-	-	1,208
Special Education Dept.	18	-	17	1	-	-	1
Speech	-	4,754	4,754	-	165	-	165
Student Council	3,166	4,893	4,593	3,466	-	-	3,466
Swim Team	564	90	15	639	-	-	639
Tech Ed. Dept.	317	90	-	407	-	-	407
Teenage Republican Party	-	120	-	120	-	-	120
Tennis	-	1,459	1,334	125	-	125	-
Textbooks	940	3,174	1,226	2,889	-	-	2,889
TMH Department	3,110	1,120	932	3,297	-	-	3,297
Track Boy's	1,797	1,756	2,573	979	-	153	826
Track Girl's	1,490	4,191	4,475	1,206	-	153	1,053
TSA Club	4,464	9,377	8,238	5,603	-	242	5,361
Tsunami Relief	-	2,594	2,594	-	-	-	-
Varsity Club	549	3,600	2,400	1,749	-	18	1,731
Volleyball	147	9,211	7,917	1,441	1,441	1,441	1,441
Wrestling	252	12,176	12,252	176	-	176	-
Y Club	1,028	14,455	14,121	1,363	-	-	1,363
Yearbook	7,401	15,072	12,045	10,428	-	7,100	3,328
Youth in Charge	1,298	1,186	1,865	619	-	-	619
TOTAL	\$ 98,111	\$ 517,038	\$ 509,620	\$ 105,530	\$ 6,660	\$ 32,199	\$ 79,992

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES

JOHN HARDIN HIGH SCHOOL

YEAR ENDED JUNE 30, 2005

NAME OF ACTIVITY	CASH	RECEIPTS	DISBURSE- MENTS	CASH	ACCOUNTS	ACCOUNTS	FUND
	BALANCES July 1, 2004			BALANCES June 30, 2005	RECEIVABLE AND DUE FROM OTHER FUNDS June 30, 2005	PAYABLE AND DUE TO OTHER FUNDS June 30, 2005	BALANCES June 30, 2005
Academic Team	\$ 520	\$ 1,681	\$ 2,020	\$ 182	\$ -	\$ -	\$ 182
Agriculture Department	9,463	19,408	17,945	10,925	-	-	10,925
Art Club	69	80	-	149	-	-	149
Art Department	-	-	-	-	-	-	-
Arts & Humanities Dept.	-	600	600	-	-	-	-
Athletic Fund	1,692	21,673	22,521	845	-	-	845
Band	-	8,628	8,585	43	-	-	43
Band Equipment/Usage	-	4,000	3,925	75	-	-	75
Baseball	2,272	5,051	5,828	1,495	-	-	1,495
Basketball-Boy's	1,611	14,819	10,532	5,898	-	-	5,898
Basketball-Girl's	1,000	11,240	11,577	663	-	-	663
Bonano Donations	-	2,307	2,307	-	-	-	-
Business Education Dept.	29	592	556	64	-	-	64
CATS Incentive	125	462	539	48	-	-	48
Cheerleading	4,041	9,682	10,780	2,944	563	880	2,627
Chess Club	136	-	-	136	-	-	136
Chorus	6	4,707	4,229	483	260	-	743
Counseling Department	1,018	14,483	15,502	-	-	-	-
Cross Country	274	3,362	2,651	985	-	-	985
Drama Club	1,112	2,530	1,880	1,761	-	-	1,761
English Department	299	2,661	2,717	243	-	-	243
Excel Program	-	-	-	-	-	-	-
Facility Rentals	-	-	-	-	75	-	75
Faculty Awards	68	426	265	229	-	-	229
Faculty Concessions	-	7,227	7,227	-	1,919	300	1,619
Faculty Social Fund	319	29	251	97	-	-	97
Family & Consumer Sciences	88	2,432	2,520	-	462	-	462
FBLA	-	15,022	13,432	1,590	-	-	1,590
FCA	573	940	816	697	-	-	697
FCCLA	700	3,584	2,692	1,592	-	-	1,592
FEA	240	558	710	88	-	-	88
FFA	2,845	20,364	21,389	1,820	-	-	1,820
Football	7,446	34,719	31,562	10,603	-	-	10,603
Football Fundraiser	1,448	3,753	3,799	1,402	72	-	1,474
Foreign Language Dept.	-	-	-	-	-	-	-
General Fund	-	-	-	-	-	-	-
General Funds	1,670	13,044	12,969	1,745	1,760	-	3,505
Golf	740	3,460	3,977	223	-	-	223
Grade 10	-	387	375	12	-	-	12
Grade 11	1,293	1,368	2,338	323	-	-	323
Grade 12	-	9,662	9,579	83	-	-	83
Grade 9	-	22	-	22	-	-	22
International Club	-	1,054	1,054	-	-	-	-
Investments	-	-	-	-	-	-	-
Journalism	1,706	1,835	2,764	777	-	-	777
JROTC	4,282	6,959	8,037	3,203	-	-	3,203
Just For Justin	-	743	-	743	-	-	743
Libray/Media Center	2,809	999	1,173	2,635	-	-	2,635
Math Department	769	475	-	1,244	-	-	1,244
Matmaids	95	-	39	56	-	-	56
National Honor Society	523	1,219	1,576	165	-	-	165
Physical Education Dept.	-	-	-	-	-	-	-
Project Graduation	931	10,591	11,291	232	-	-	232
SADD Club	688	432	322	798	-	-	798
Scholarship	361	-	361	-	-	-	-

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES

JOHN HARDIN HIGH SCHOOL-CONCLUDED

YEAR ENDED JUNE 30, 2005

NAME OF ACTIVITY	CASH BALANCES	RECEIPTS	DISBURSE- MENTS	CASH BALANCES	ACCOUNTS RECEIVABLE AND DUE FROM OTHER FUNDS	ACCOUNTS PAYABLE AND DUE TO OTHER FUNDS	FUND BALANCES
	July 1, 2004			June 30, 2005	June 30, 2005	June 30, 2005	June 30, 2005
School Concessions	2,495	1,907	2,442	1,960	351	-	2,311
School Store	10	-	-	10	-	-	10
Science Department	1,509	448	1,717	240	-	-	240
Soccer-Boys	84	2,973	2,873	185	-	-	185
Soccer-Girls	1,695	3,964	4,983	676	-	-	676
Social Studies Dept.	-	136	31	104	-	-	104
Softball	106	6,318	5,656	767	-	-	767
Special Education Dept.	19	356	224	151	-	-	151
Speech	82	1,015	1,047	50	-	-	50
Student Council	737	891	663	965	-	-	965
Student School Fund	6,860	5,945	9,663	3,142	-	470	2,672
Swimming	-	-	-	-	-	-	-
Tech Education Dept.	2	-	-	2	-	-	2
Tech Student Association	27	992	56	963	-	-	963
Teenage Republicans	-	260	-	260	-	-	260
Tennis	5	3,426	3,321	111	-	-	111
Textbooks	839	2,788	2,222	1,406	-	-	1,406
Three-Point Club	5,079	6,396	7,307	4,168	-	-	4,168
Track	-	4,725	4,589	136	340	-	476
Tsunami Relief Fund	-	1,123	1,122	1	-	-	1
Volleyball	706	5,753	5,164	1,295	-	-	1,295
Winter Guard	669	2,500	3,104	64	-	-	64
Wrestling	86	3,448	3,195	339	-	-	339
Y Club	311	11,727	11,906	132	-	-	132
Yearbooks	8,018	33,070	32,154	8,934	-	-	8,934
Subtotal	82,599	369,429	368,649	83,379	5,801	1,650	87,530
Interfund Transfers	-	5,160	5,160	-	-	-	-
TOTAL	\$ 82,599	\$ 364,269	\$ 363,489	\$ 83,379	\$ 5,801	\$ 1,650	\$ 87,530

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES

NORTH HARDIN HIGH SCHOOL

YEAR ENDED JUNE 30, 2005

NAME OF ACTIVITY	CASH BALANCES	RECEIPTS	DISBURSE- MENTS	CASH BALANCES	ACCOUNTS RECEIVABLE AND DUE FROM OTHER FUNDS	ACCOUNTS PAYABLE AND DUE TO OTHER FUNDS	FUND BALANCES
	July 1, 2004			June 30, 2005	June 30, 2005	June 30, 2005	June 30, 2005
Academic Team	\$ 1,307	\$ 1,149	\$ 1,017	\$ 1,439	\$ -	\$ -	\$ 1,439
Agriculture Department	5,863	2,114	2,001	5,976	-	-	5,976
Art Club	947	1,126	589	1,484	-	-	1,484
Art Department	23	-	-	23	-	-	23
Athletic Fund	868	80,750	80,704	914	-	-	914
Athletic Uniforms	13,659	18,855	18,316	14,198	-	-	14,198
B & G Drill Team/JROTC	1,889	5,683	5,632	1,939	-	-	1,939
Band	2,002	21,016	20,399	2,620	-	-	2,620
Baseball	1,516	8,394	9,721	189	-	-	189
Bingo Fund	4,116	163,637	167,753	-	37,583	-	37,583
Boys Basketball	1,638	8,374	7,695	2,317	-	-	2,317
Business Education Dept.	-	-	-	-	-	-	-
Cheerleaders	-	14,981	10,591	4,391	-	-	4,391
Chess Club	66	90	-	156	-	-	156
Chorus	599	2,934	2,594	938	-	-	938
Counseling Department	2,812	4,610	4,749	2,673	-	-	2,673
Cross Country/Boys	1,851	2,499	2,864	1,487	-	-	1,487
Cross Country/Girls	1,235	2,590	2,847	978	-	-	978
Dance Team	64	373	98	340	-	-	340
Drama Club	1,464	1,094	2,046	512	-	-	512
English Department	276	-	-	276	-	-	276
Faculty Concessions	578	3,545	3,961	163	-	-	163
Faculty Flower Fund	4	659	663	-	-	-	-
Family & Consumer Sciences	1,588	4,232	4,059	1,761	-	-	1,761
FBLA	1,150	1,077	2,189	37	-	-	37
FCA	368	1,213	612	969	-	-	969
FCCLA	3,794	9,823	11,401	2,217	-	-	2,217
FFA	4,558	9,412	8,267	5,702	-	-	5,702
Football	-	8,019	7,402	617	-	2,027	(1,409)
Foreign Language Department	158	1,219	1,062	315	-	-	315
French Club	743	765	55	1,452	-	-	1,452
French Travel	-	-	-	-	-	-	-
Future Educators of America	269	823	470	622	-	-	622
German Club	1,937	1,090	726	2,300	-	-	2,300
German Travel	-	-	-	-	-	-	-
Girls Basketball	3,130	18,396	15,799	5,727	-	-	5,727
Golf	518	1,149	806	861	-	-	861
Grade 10	1,150	279	1,430	-	-	-	-
Grade 11	1,361	1,912	3,030	243	-	-	243
Grade 12	387	17,571	15,452	2,506	-	-	2,506
Grade 9	25	-	25	-	-	-	-
Instructional/Operations	980	4,733	2,270	3,444	-	-	3,444
Investments	-	-	-	-	-	-	-
Journalism	-	6,890	6,613	277	-	-	277
JROTC	403	18,038	17,608	833	-	-	833
JROTC Color Guard	1,501	2,251	2,153	1,599	-	-	1,599
JROTC Rifle Team	1,302	1,673	1,953	1,021	-	-	1,021
Karate Club	167	620	420	367	-	-	367
KJHS Club	651	-	306	345	-	-	345
Library/Media Center	536	1,366	1,436	465	-	-	465
Math Department	2,168	973	2,425	715	-	-	715
Matmaids	153	1,219	-	1,372	-	-	1,372
National Honor Society	5,050	12,468	13,864	3,654	-	-	3,654
NHHS Bingo	-	226,343	176,115	50,227	-	40,015	-
Nurse	44	-	-	44	-	-	44
Pep Club	-	2,674	1,794	881	-	-	881

HARDIN COUNTY BOARD OF EDUCATION

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES

NORTH HARDIN HIGH SCHOOL-CONCLUDED

YEAR ENDED JUNE 30, 2005

NAME OF ACTIVITY	CASH BALANCES July 1, 2004	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2005	ACCOUNTS RECEIVABLE AND DUE FROM OTHER FUNDS June 30, 2005	ACCOUNTS PAYABLE AND DUE TO OTHER FUNDS June 30, 2005	FUND BALANCES June 30, 2005
Photography Club	446	357	526	277	-	-	277
Physical Education Dept.	56	175	175	56	-	-	56
SADD	66	3,981	4,048	-	-	-	-
School Concessions	4,153	11,574	14,985	743	-	-	743
School Fund	8,942	10,235	14,040	5,138	-	-	5,138
School Security Fund	-	-	-	-	-	-	-
School Store	1,247	7,423	6,229	2,441	-	-	2,441
Science Class-Wolfe	156	-	156	-	-	-	-
Science Club	610	1,017	432	1,195	-	-	1,195
Science Department	1,131	2,781	3,215	697	-	-	697
Soccer/Boys	4,356	2,873	4,185	3,044	-	-	3,044
Soccer/Girls	4,561	2,873	2,173	5,260	-	-	5,260
Social Studies Dept.	-	-	-	-	-	-	-
Softball	3,567	5,320	4,743	4,145	-	-	4,145
Spanish Club	1,231	632	628	1,234	-	-	1,234
Spanish Travel	7	-	-	7	-	-	7
Special Education Dept.	979	2,187	2,223	943	-	-	943
Speech	3	320	230	93	-	-	93
Student Council	2,160	3,555	3,676	2,038	-	-	2,038
Swimming	4,068	1,724	1,052	4,740	-	-	4,740
Student Support Services	50	1,148	893	305	-	-	305
Tech Ed Department	694	163	608	249	-	-	249
Tennis	680	1,724	1,384	1,020	-	-	1,020
Textbooks	189	1,840	1,820	208	-	-	208
Track/Boys	6,711	7,064	6,650	7,125	-	-	7,125
Track/Girls	1,050	2,444	3,468	26	-	-	26
Travel	194	2,524	1,213	1,504	-	-	1,504
TSA Club	2,348	7,018	6,540	2,827	-	-	2,827
Volleyball	1,009	6,885	6,032	1,862	-	-	1,862
Witten Scholarship	649	-	-	649	-	-	649
Wrestling	291	3,915	3,860	346	-	-	346
Y Club	85	4,876	4,600	361	-	-	361
Yearbooks	21,453	33,119	37,989	16,583	-	-	16,583
Youth in Charge	350	27	377	-	-	-	-
Subtotal	150,362	830,469	782,132	198,699	37,583	42,042	184,029
Interfund Transfers	-	109,476	109,476	-	-	-	-
TOTAL	<u>\$150,362</u>	<u>\$ 720,993</u>	<u>\$ 672,656</u>	<u>\$ 198,699</u>	<u>\$ 37,583</u>	<u>\$ 42,042</u>	<u>\$ 184,029</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

HARDIN COUNTY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2005

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>		<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Passed Through State Department of Education:				
National School Lunch	10.555	*	575-04-02	\$ 801,243
			575-05-02	1,465,542
School Breakfast	10.553	*	576-04-05	136,243
			576-05-05	456,188
Summer Feeding Program	10.559	*	569-04-24	158,840
Passed Through State Dept. of Agriculture				
Food Distribution (In-Kind Commodities)	10.555	*	N/A	265,982
TOTAL U.S. DEPT. OF AGRICULTURE				3,284,038
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Impact Aid	84.041		N/A	208,951
Passed Through State Department of Education:				
Title I	84.010	*	3104	510,754
			3105	1,838,165
Title I - School Improvement	84.010	*	3204	133,522
Title I - Neglected/Delinquent Children	84.010	*	3135	28,773
			3145	44,014
Title I - Migrant	84.011		3114	32,666
			3115	72,197
Title III - Language Instruction	84.365		3453	1,312
			3454	16,024
Title IIC	84.048		3484A	6,026
			3485	140,837
IDEA - Part B	84.027	*	3374	62,691
			3375	2,367,216
IDEA - Part B - Preschool	84.173	*	3434	2,954
			3435	145,473
Title IV	84.186		4064	58,151
Innovative Program Strategies	84.298		3344	5,095
			3345	54,676
Teacher Quality	84.367A	*	4014	79,435
			4015	502,904
Title II D	84.318X		4253	3,728
			4254	20,848
			4255	38,970

HARDIN COUNTY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

YEAR ENDED JUNE 30, 2005

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
21st Century	84.287	5503	25,935
		5504	148,646
		5505	10,067
Passed Through Cabinet for Workforce Development Adult Education	84.002	3655	33,284
		3735	110,413
		3735S	8,266
		3805	18,954
		6835	4,186
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>6,735,133</u>
<u>U.S. DEPARTMENT OF DEFENSE</u>			
Junior ROTC	12.404	5045	<u>155,996</u>
TOTAL U.S. DEPARTMENT OF DEFENSE			<u>155,996</u>
<u>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>			
Passed Through State Department of Education: Service Learning	94.004	6755	<u>3,000</u>
TOTAL U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>3,000</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 10,178,167</u>

HARDIN COUNTY BOARD OF EDUCATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2005

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hardin County Board of Education and is presented on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I-Summary of Auditor's Results

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

REFERENCE NUMBER 05-1

DEPARTMENT OF EDUCATION – Idea B CFDA No. 84.027 – Grant period – Year ending June 30, 2005;
Idea B – Preschool – CFDA No. 84.173 – Grant period – Year ending June 30, 2005

CRITERIA – Personnel activity reports and/or periodic certifications to substantiate payroll charges are required to be completed under the provisions of OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments."

STATEMENT OF CONDITION – Documentation of preparation of personnel activity reports and/or periodic certifications was not completed for all employees charged to the Idea B and Idea B – Preschool grants.

EFFECT OF THE CONDITION – The personnel costs for which documentation could not be located may be disallowed.

QUESTIONED COSTS – None.

CAUSE OF CONDITION - Program administrators did not follow the payroll documentation requirements under OMB Circular A-87.

RECOMMENDATION – Hardin County School District should ensure that program administrators follow the documentation requirements for payroll charges to federal programs.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

HARDIN COUNTY BOARD OF EDUCATION

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2005

DEPARTMENT OF EDUCATION

FINDING 04-1: Idea B and Idea B Preschool

CONDITION: Documentation of preparation of personnel activity reports and/or periodic certifications was not completed for all employees charged to the Idea B and Idea B – Preschool grants.

RECOMMENDATION: The auditor recommended that procedures be implemented requiring the completion of personnel activity reports and/or periodic certifications. Management concurred with the recommendation and indicated that the procedures would be implemented.

CURRENT STATUS: The recommendation was adopted; however, not all charged employees completed the required personnel activity reports and/or periodic certifications. The finding was repeated in the current audit.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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Members of the Board of Education
Hardin County Board of Education
Elizabethtown, Kentucky

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hardin County Board of Education as of and for the year ended June 30, 2005, which collectively comprise the Hardin County Board of Education's basic financial statements and have issued our report thereon dated August 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the Independent Auditor's Contract.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hardin County Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hardin County Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We also noted certain additional matters that we have reported to the management of Hardin County Board of Education in a separate letter dated August 12, 2005.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Hardin County Board of Education, the Kentucky Department of Education and management and should not be used by anyone other than these specified parties.

Stiles, Carter & Associates

Certified Public Accountants
August 12, 2005

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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Compliance

We have audited the compliance of Hardin County Board of Education with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Hardin County Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Hardin County Board of Education's management. Our responsibility is to express an opinion on Hardin County Board of Education's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the Independent Auditor's Contract. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hardin County Board of Education's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hardin County Board of Education's compliance with those requirements.

As described in item 05-1 in the accompanying schedule of findings and questioned costs, Hardin County School District did not comply with requirements regarding payroll charges that are applicable to its IDEA and IDEA – Preschool programs. Compliance with such requirements is necessary, in our opinion, for Hardin County School District, to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Hardin County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Hardin County Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Hardin County Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Hardin County Board of Education's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Hardin County Board of Education, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Stiles, Carter & Associates". The script is cursive and fluid.

Certified Public Accountants
August 12, 2005

MANAGEMENT LETTER COMMENTS

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Members of the Board of Education of
Hardin County Board of Education
Elizabethtown, Kentucky

In planning and performing our audit of the basic financial statements of Hardin County Board of Education for the year ended June 30, 2005, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated August 12, 2005, contains our report on the District's internal control structure. This letter does not affect our report dated August 12, 2005, on the financial statements of the Hardin County Board of Education.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Stiles, Carter & Associates

Certified Public Accountants
August 12, 2005

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS

June 30, 2005

UNCORRECTED PRIOR YEAR COMMENTS

North Hardin High School

Segregation of Duties Regarding Handling Receipts and Paying Bills

During our audit, we noted that the school was not in compliance with the segregation of duties requirements for handling receipts and paying bills as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Three people are involved in the process of handling receipts at North Hardin High School. Teachers/sponsors turn money in to the school treasurer. An aide works with her to count the money and process checks received in the mail. The principal also goes through the checks. The school treasurer and the aide prepare the deposit tickets together. The school treasurer records the revenue in the school accounting system to agree with the deposit tickets. The school treasurer has been taking the deposits to the bank. However, at least two people verify the deposit before it leaves the school and one of them checks the deposit ticket when she returns to school. When the deposit is for Bingo, someone verifies that the Bingo account is credited for the amount on the deposit ticket in the accounting system. A school employee not already involved in the receipts process will be designated to take the deposit to the bank to further strengthen the segregation of duties for handling receipts.

Three people are now involved in the bill paying process at North Hardin High School. Invoices are approved by the principal or club/activity sponsor. The school treasurer enters the invoices into the school accounting system making sure each contains an invoice, signed purchase order, and a receipt of goods/packing slip that someone has initialed to confirm receipt except for recurring bills such as newspaper subscriptions. She then prints the checks. A clerk now matches the invoices to the checks and mails the checks. Both the principal and the school treasurer sign checks. In the principal's absence, the assistant principal can sign checks. However, every check must have two signatures.

District Comment: North Hardin High School has three different people involved as required by *Accounting Procedures for Kentucky School Activity Funds* in regards to segregation of duties in handling receipts and paying bills. It does not stipulate that the school treasurer cannot take the deposit to the bank. Auditor's suggestion to hire additional staff or pull a teacher or counselor from classroom duties is not practical since classroom management and student learning is the primary function of the school system.

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2005

UNCORRECTED PRIOR YEAR COMMENTS – CONTINUED

John Hardin High School

Concession Sales

During our audit, we noted that reasonable profits on concession sales are not verified using the Inventory Control Worksheet (Form F-SA-5) as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Reasonable profits on concession sales will be verified by filling out an Inventory Control Worksheet (Form F-SA-5) at the end of football season and again after basketball season, as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

It is very difficult, if not impossible, to determine exact profits per game due to three reasons:

1. Items such as Coke and pizza are billed monthly and food service items are billed annually.
2. Items such as popcorn, nachos, mayonnaise, mustard, ketchup, sugar, seasoning, etc. are impossible to quantify into units.
3. Items such as napkins, cups, straws, popcorn bags, coffee filters, mayonnaise, mustard, ketchup, seasoning, sugar, etc. are not direct sale items nor is it cost effective to inventory these items after each game.

At the end of football season and again after basketball season, a spreadsheet will be compiled to show the profit margin by items sold. The practice of filling out a form to show an itemized list of purchases will be continued.

Bluegrass Middle School

Receipts

During our review of receipts, it came to our attention that a pre-numbered receipt was not issued by the school treasurer when receiving money from a teacher/sponsor.

Management Response

This was corrected with a change in the office manager position in mid-year. Use of the pre-numbered receipt book has now been implemented.

Depositing Funds

During our audit, we noted that there is not an employee other than the person preparing the deposit slips to verify that the amount on the deposit ticket agrees with the total amount of receipts recorded in the general ledger and that the deposit ticket has been stamped by the bank as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

The school treasurer prepares the deposits. The office manager or attendance clerk verifies the deposit before it goes to the bank and after it has been deposited.

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2005

UNCORRECTED PRIOR YEAR COMMENTS – CONTINUED

Segregation of Duties Regarding Handling Receipts & Paying Bills

During our audit, we noted that the school was not in compliance with the segregation of duties requirements for handling receipts & paying bills as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

In handling receipts, the procedure is that the office assistant opens the mail, except bank statements, which the principal opens. She records the checks by payee and gives them to the principal. All cash receipts are recorded on a multiple receipt form by teachers/club sponsors and given to the office manager with the money. The school treasurer copies any checks, prepares the deposit ticket for the bank, and records the receipts in the school accounting system. The principal and the school treasurer take the deposits to the bank.

In paying bills, the principal approves all invoices. The school treasurer matches the invoices, purchase orders, and packing slips and prints checks. The principal approves the payments and the school treasurer gives them to the office assistant to be mailed. The principal also opens and scans bank statements for checks not in chronological order or anything out of the ordinary. The school treasurer reconciles the bank statement.

District Comment: Bluegrass Middle School has three different people involved as required by *Accounting Procedures for Kentucky School Activity Funds* in regards to segregation of duties in handling receipts and paying bills.

Concession Sales

During our audit, we noted that reasonable profits on concession sales are not verified using the Inventory Control Worksheet (Form F-SA-5) as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Inventory is now being kept on concessions.

Fundraisers

During our audit, we noted that the Fund Raiser Worksheet (Form F-SA-2B) was not used to reconcile the number of items taken, sold, and returned with money turned in as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

The fundraiser worksheet will be implemented in the 2005-2006 school year.

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2005

UNCORRECTED PRIOR YEAR COMMENTS – CONTINUED

East Hardin Middle School

Deposits Not Made on a Timely Basis

During our audit, we noted that deposits were not made on a timely basis. *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education states that deposits should be made daily unless the amount on hand is less than \$100, and then deposits shall be made weekly even if the deposit is less than \$100.

Management Response

Deposits will be made daily.

Segregation of Duties Regarding Handling Receipts and Paying Bills

During our audit, we noted that the school was not in compliance with the segregation of duties requirements for handling receipts and paying bills as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Teachers are counting money before it is turned in to the Office Manager/Bookkeeper, who then counts it. The counseling assistant then counts the money a third time before a deposit is made.

District Comment: East Hardin Middle School has three different people involved as required by *Accounting Procedures for Kentucky School Activity Funds* in regards to segregation of duties in handling receipts. The Hardin County Director of Finance will work with the school to assure complete compliance.

James T. Alton Middle School

Segregation of Duties Regarding Handling Receipts

During our audit, we noted that the school was not in compliance with the segregation of duties requirements for handling receipts as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

The example in *Accounting Procedures for Kentucky School Activity Funds* for segregation of duties under handling receipts is being followed with the exception of the principal not being the person making the deposits. The principal has not been performing this task herself because of other responsibilities within the building. The principal will be asked to either take the deposit herself or designate another employee not already involved in handling receipts to take it.

District Comment: The school has three different people involved as required by *Accounting Procedures for Kentucky School Activity Funds* in regards to segregation of duties in handling receipts. It does not require the principal to take the deposit to the bank.

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2005

UNCORRECTED PRIOR YEAR COMMENTS – CONTINUED

Radcliff Middle School

Segregation of Duties Regarding Handling Receipts

During our audit, we noted that Radcliff Middle School was not in compliance with the segregation of duties requirements for handling receipts as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

This year a third person will open checks that come in the mail and record each check in a log.

West Hardin Middle School

Segregation of Duties Regarding Handling Receipts and Paying Bills

During our audit, we noted that the school was not in compliance with the segregation of duties requirements for handling receipts and paying bills as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Handling receipts Teachers/sponsors count and receipt money received from students. They take the money to the attendance clerk who counts the money and compares it to the receipt sheet the teacher/sponsor has prepared. She then issues the teacher/sponsor one copy of a triplicate receipt form, gives one to the school treasurer along with the money, and keeps one for herself. The school treasurer then counts the money and compares the total to the receipts prepared by the attendance clerk, prepares the deposit ticket for the bank, and records the money in the school accounting system. The attendance clerk then takes the deposit to the bank.

District Comment: The school has three different people involved as required by *Accounting Procedures for Kentucky School Activity Funds* in regards to segregation of duties in handling receipts.

Paying Bills The office manager will match the amount of the checks written by the school treasurer to the actual invoices. The checks will then be signed by the principal and the school treasurer like they always have been.

G.C. Burkhead Elementary

Segregation of Duties Regarding Paying Bills

During our audit, we noted that the school was not in compliance with the segregation of duties requirements for paying bills as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

G.C. Burkhead will follow the procedures in segregation of duties (paying bills) as required in the *Accounting Procedures for Kentucky School Activity Funds*.

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2005

UNCORRECTED PRIOR YEAR COMMENTS – CONTINUED

Howe Valley Elementary

Segregation of Duties Regarding Handling Receipts

During our audit, we noted that the school was not in compliance with the segregation of duties requirements for handling receipts as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Howe Valley Elementary is in compliance with segregation of duties regarding handling receipts as shown in the example in *Accounting Procedures for Kentucky School Activity Funds*. A clerk is handling all the tasks it shows person #1 doing, the school treasurer is completing the person #2 tasks, and the principal is doing the tasks it shows person #3 doing.

Lakewood Elementary

Segregation of Duties Regarding Handling Receipts

During our audit, we noted that Lakewood Elementary was not in compliance with the segregation of duties requirements for handling receipts as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

As of the receipt of this management letter, the principal will be the primary person to physically take the Lakewood Elementary School deposits to the bank. The Assistant Principal and Guidance Counselor will provide backup for bank depositing.

Lincoln Trail Elementary

Segregation of Duties Regarding Handling Receipts and Paying Bills

During our audit, we noted that the school was not in compliance with the segregation of duties requirements for handling receipts and paying bills as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

The principal signs all purchase orders. The person requesting the monies must sign to have it taken from a specific fund. The office manager is the person who prepares and mails the checks. Invoices are matched to the checks by the principal. Both the principal and office manager sign the checks.

The teacher/sponsor, office manager, and the school secretary count all monies.

District Comment: The school has three different people involved as required by *Accounting Procedures for Kentucky School Activity Funds* in regards to segregation of duties in handling bills. The Hardin County Director of Finance will work with the school to assure complete compliance on bills and receipts.

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2005

UNCORRECTED PRIOR YEAR COMMENTS – CONTINUED

Meadowview Elementary

Segregation of Duties Regarding Handling Receipts and Paying Bills

During our audit, we noted that the school was not in compliance with the segregation of duties requirements for handling receipts and paying bills as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

An addition has been made to Meadow View Elementary's Purchase Requisition form, which states, "The attached invoice(s) and check are equal to the same amount." The attendance clerk will sign and date this statement and then mail the check to the vendor starting 9/9/05.

Meadow View Elementary's segregation of duties for handling receipts does involve three separate people as required by *Accounting Procedures for Kentucky School Activity Funds*. Teachers/sponsors bring money to the school treasurer, count it with her at that time, and are given one copy of the two-part receipt at that time. The other copy is filed with the deposit. The school treasurer recounts the money then prepares the deposit ticket. The library assistant compares the deposit ticket to the receipts written, counts the money, and initials the deposit ticket. The principal takes the deposit to the bank. The school treasurer records the revenue in the school accounting system. The school treasurer gives the principal a print-out from the school accounting system which shows the amount and date of the deposit along with the multiple receipt forms and deposit tickets. He reconciles the deposit tickets with the entries into the school accounting system and initials the print-out which is kept on file at the school. The principal opens and reviews bank statements before they are given to the school treasurer.

New Highland Elementary

Segregation of Duties Regarding Handling Receipts

During our audit, we noted that the school was not in compliance with the segregation of duties requirements for handling receipts as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

There are three people involved in handling receipts. The teacher/sponsor counts the money before submitting it along with the multiple receipt form. Then the office manager and another member of the office staff count the money. The money is deposited and a clerk reconciles the supporting documentation to the deposit ticket.

Parkway Elementary

Segregation of Duties Regarding Handling Receipts and Paying Bills

During our audit, we noted that Parkway Elementary School was not in compliance with the segregation of duties requirements for handling receipts and paying bills as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

A new office manager was hired in the middle of the 2004-2005 school year. Office staff have now been cross-trained to comply with the segregation of duties requirements. We were already in compliance with handling receipts by the time of the audit according to the example in *Accounting Procedures for Kentucky School Activity Funds*. A third person is now involved in paying bills.

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2005

UNCORRECTED PRIOR YEAR COMMENTS – CONTINUED

Rineyville Elementary

Segregation of Duties Regarding Handling Receipts and Paying Bills

During our audit, we noted that the school was not in compliance with the segregation of duties requirements for handling receipts and paying bills as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

To improve the segregation of duties regarding paying bills, the office assistant will now match invoices to the checks and mail the checks.

There will be three people involved in handling receipts. Teachers/sponsors currently bring money along with the multiple receipt form or other documentation to the school treasurer and count it with her at which time the school treasurer gives the teacher/sponsor a receipt. The school treasurer then prepares the deposit ticket and enters the receipts into the school accounting system. The principal or other school employee the principal designates will begin taking the deposit to the bank.

Sonora Elementary

Segregation of Duties Regarding Handling Receipts and Paying Bills

During our audit, we noted that the school was not in compliance with the segregation of duties requirements for handling receipts and paying bills as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Sonora Elementary will utilize additional office school personnel to ensure that all certified staff use teacher multiple receipt forms as support documentation.

Upton Elementary

Segregation of Duties Regarding Handling Receipts and Paying Bills

During our audit, we noted that the school was not in compliance with the segregation of duties requirements for handling receipts and paying bills as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Office personnel have been assigned designated responsibilities in the handling of in-coming mail, the segregation of duties requirements for handling receipts and paying bills as required by the Accountability Procedures for Kentucky School Activity Funds.

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2005

UNCORRECTED PRIOR YEAR COMMENTS – CONTINUED

Vine Grove Elementary

Segregation of Duties Regarding Handling Receipts

During our audit, we noted that the school was not in compliance with the segregation of duties requirements for handling receipts as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Teachers/sponsors give the school treasurer a Multiple Receipt Form with the amount of cash or checks written on the receipt and count the money with her. The school treasurer then gives the teacher/sponsor a pre-numbered receipt. Then, either the office assistant or the records clerk counts the money for deposit with the school treasurer. The school treasurer then prepares the deposit slip, enters it into the school accounting system, and prints a receipt. When checks come in the mail they are delivered to the school treasurer and examined by either the office assistant or the records clerk. Checks will now be written down in a logbook by one of these individuals when they arrive in the mail. One of these two employees had been writing them on the deposit slip when they were received, so we knew they were being deposited. The cafeteria manager deposits the checks and cash.

District Comment: The school has three different people involved as required by *Accounting Procedures for Kentucky School Activity Funds* in regards to segregation of duties in handling receipts.

Woodland Elementary

Segregation of Duties Regarding Paying Bills

During our audit, we noted that the school was not in compliance with the segregation of duties requirements for paying bills as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

The principal is approving invoices and signing checks as the second required signature. The office manager is entering invoices into the school accounting system, printing, and signing the checks. The office assistant will start matching the checks to the invoices and mail the checks. This procedure for paying bills will involve three separate people as required by *Accounting Procedures for Kentucky School Activity Funds*

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2005

UNCORRECTED PRIOR YEAR COMMENTS – CONTINUED

Brown Street Education Center

Segregation of Duties Regarding Handling Receipts and Paying Bills

During our audit, we noted that the center was not in compliance with the segregation of duties requirements for handling receipts and paying bills as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

Receipts--Brown Street's receipts are deposited in Wilson and Muir Bank. Each deposit slip is initialed by three of the following: staff members, principal, counselor, clerk, and bookkeeper. We have had the same procedures for two years.

Paying bills—The principal reviews checks and invoices with the bookkeeper. Invoices will be verified and initialed by one of two office staff before mailed.

District Comment: The Hardin County Director of Finance will work with the school to assure complete compliance.

CURRENT YEAR COMMENTS

North Hardin High School

Receipts

We noted that receipts did not contain adequate supporting documentation such as a Teacher's Multiple Receipt Form or equivalent

Management Response

Teachers had been keeping their own receipt books for money turned in. These books (or copies) were not being turned in with the money as supporting documentation. They are now also turning in the multiple receipt form along with the deposit request form.

John Hardin High School

Receipts

We noted that receipts did not contain adequate supporting documentation such as a Teacher's Multiple Receipt Form or equivalent

Management Response

It is now written in the John Hardin High School Staff Handbook that each deposit needs to be turned in on a multiple receipt form as well as a written receipt be given to each person to provide adequate supporting documentation. The only exceptions would be donations in the form of small change collected for service projects such as "Hurricane Relief." The school bookkeeper had an orientation session on this with the teachers, sponsors, and coaches before the start of the 2005-2006 school year.

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2005

CURRENT YEAR COMMENTS – CONTINUED

Bluegrass Middle School

Student-Generated Monies vs. Non-Student-Generated Monies

During our review of disbursements, it came to our attention that there were items paid out of the student funds that were for the benefit of the faculty and staff. Per the Redbook, only staff generated funds may be used for staff gifts, dinner, etc.

Management Response

The differentiating of money has been corrected. An activity fund called A COLT FUND has been established to allow the teachers to contribute in order to pay for dinners, flowers, etc. for faculty and staff. These monies are not generated by students.

Attendance Awards

We noted that attendance awards were given to students in the form of gift cards. This is expressly prohibited by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

The school treasurer and principal were unaware that this was a violation. Gift cards will no longer be given for attendance awards.

District Comment: The Director of Finance will work with schools to ensure attendance awards are not given.

East Hardin Middle School

Receipts

We noted that receipts did not contain adequate supporting documentation such as a Teacher's Multiple Receipt Form or equivalent

Management Response

Now, every money envelope that a teacher turns in will have a multiple receipt sheet attached to it. The teachers also have had the option of writing out a pre-numbered receipt (duplicate form) for the student. These pre-numbered receipt books are kept on file at our school.

Student-Generated Monies vs. Non-Student-Generated Monies

During our review of disbursements, it came to our attention that there were items paid out of student funds that were for the benefit of the faculty and staff. *Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education does not allow school funds to be used for staff gifts, dinners, etc.

Management Response

A separate activity account will be opened to allow separation of the money generated from vending machines that the students have access to from the money generated from the concession stand.

District Comment: The Hardin County Director of Finance will work with the school to assure that no student funds will be used for staff gifts, dinners, etc.

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2005

CURRENT YEAR COMMENTS – CONTINUED

James T. Alton Middle School

Concession Sales

During our audit, we noted that reasonable profits on concession sales are not verified using the Inventory Control Worksheet (Form F-SA-5) as required by *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education.

Management Response

An F-SA-5 inventory control form was given to the athletic director at the end of last school year and is being implemented by the activity director this school year.

Radcliff Middle School

Receipts

We noted that money collected by a teacher/sponsor is not given to the school treasurer on the day it is collected. *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education requires these funds to be remitted to the treasurer when collected .

Management Response

We are working to ensure that teachers/sponsors turn money in to the school treasurer on the day monies are collected.

Student-Generated Monies vs. Non-Student-Generated Monies

During our review of disbursements, it came to our attention that there were items paid out of student funds that were for the benefit of the faculty and staff. Per the Redbook, only staff generated funds may be used for staff gifts, dinner, etc.

Management Response

Student generated funds will not be used to purchase items that benefit the faculty and staff.

G.C. Burkhead Elementary

Receipts

We noted that money collected by a teacher/sponsor is not given to the school treasurer on the day it is collected. *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education requires these funds to be remitted to the treasurer when collected .

Management Response

The principal and office manager/bookkeeper will require that money collected by a teacher/sponsor be given to the school treasurer on the day collected.

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2005

CURRENT YEAR COMMENTS – CONTINUED

Meadowview Elementary

Maintenance of Facilities

We noted that the school general fund was used to pay for school landscaping. *Accounting Procedures for Kentucky School Activity Funds* issued by the Kentucky Department of Education does not allow school funds to be used for building maintenance.

Management Response

School activity funds will not be used for things that could be considered building maintenance.

New Highland Elementary

Receipts

We noted that receipts did not contain adequate supporting documentation such as a Teacher's Multiple Receipt Form or equivalent

Management Response

The teacher's multiple receipt form or its equivalent will be used to provide supporting documentation for receipts.

Rineyville Elementary

Student-Generated Monies vs. Non-Student-Generated Monies

During our review of disbursements, it came to our attention that there were items paid out of student funds that were for the benefit of the faculty and staff. Per the Redbook, only staff generated funds may be used for staff gifts, dinner, etc.

Management Response

Rineyville Elementary will make a more concentrated effort to ensure that no student funds are used for the benefit of the faculty and staff.

Sonora Elementary

Receipts

We noted that receipts did not contain adequate supporting documentation such as a Teacher's Multiple Receipt Form or equivalent

Management Response

Sonora Elementary will utilize additional office school personnel to ensure that all certified staff use teacher multiple receipt forms to support receipts.

HARDIN COUNTY BOARD OF EDUCATION

MANAGEMENT LETTER COMMENTS – CONTINUED

June 30, 2005

CURRENT YEAR COMMENTS – CONTINUED

Vine Grove Elementary

Payment for Services

We noted that a stipend was paid to the yearbook sponsor. The Redbook states that payments to persons who are district employees such as coaches and sponsors must be paid through MUNIS payroll for accurate reporting. They cannot be paid directly from school activity funds for extra duties and services.

Management Response

Vine Grove will not make payments to district employees outside of the district accounting system (MUNIS). All payments to district employees will be paid according to the district's salary schedules.

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State Committee for School District Audits
Members of the Board of Education
Hardin County Board of Education
Elizabethtown, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hardin County Board of Education as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the accompanying table of contents, and have issued our report thereon dated August 12, 2005. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under auditing standards generally accepted in the United States of America, the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the *Independent Auditors' Contract*.

As stated in our engagement letter dated June 1, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our audit procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note A to the financial statements. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant accounting estimate is the estimate for sick leave.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). The audit adjustments, in our judgment, none of the adjustments we proposed, whether recorded or unrecorded, either individually or in the aggregate, do not indicate matters that could have a significant effect on the District's financial reporting process.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. There have been no disagreements during the course of our audit.

Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to contact us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This report is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management and is not intended and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Stiles, Carter & Associates".

Certified Public Accountants
August 12, 2005